



Austrian Georgian Development LLC

Company Prospectus

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Key information about the Company

The Company is LLC “Austrian Georgian Development” (The “**Company**”).

Address: Georgia, Tbilisi, Vake district, s. Euli Street, №5/Jikia Street, №10, Flat 37

Country of registration: Georgia.

Regulatory legislation: Legislation of Georgia.

Date of establishment: June 18, 2013.

The Company is engaged in operating a Hydroelectric Power Plants (“**HPPs**”) (including production and trading of electricity) along with the associated investment, operational, financial, and other related activities.

The Company owns and operates run-of-river, cascade-type hydroelectric power stations, Lakhami 1 and 2, situated on the Lakhami River in the Samegrelo-Zemo Svaneti region, specifically in the village Lakhami, Mestia municipality. The Company's assets have a total installed capacity of 15.9 MW, with an annual generation of 62.2 GWh. The average load factor of the hydroelectric power stations is approximately 45%. Each hydroelectric power station encompasses a water conduit, fishway, penstocks, and powerhouse building.

Construction work commenced in 2018 and was successfully completed in 2020.

The Company sells electricity both on the local market and through exports to the Republic of Türkiye.

Both HPPs of the Company have a long-term Power Purchase Agreement (the “**PPA**”) signed with JSC “Electricity System Commercial Operator” (“**ESCO**”) (for more detailed information about the PPA please refer to the “Industry” – subsection “Support for the Development of Renewable Energy Sources”). Under the PPA, during the first 10 years of operation, the Company has the option to sell electricity exclusively to ESCO for 8 months (September-April) at a maximum price of 6.00 US cents/kWh, or sell electricity to any party in Georgia. Within the framework of the memorandum signed with the state, the Company also has the right to export electricity to Republic of Türkiye during the remaining 4 months (May-August).

As noted, the price of electricity under the PPA is denominated in US dollars, which mitigates currency risk and enhances the yield in the Bond currency.

The technical and commercial parameters of HPPs Lakhami 1 and Lakhami 2 are provided below:

Table 1: Technical and commercial parameters of hydroelectric power plants

HPP	Lakhami 1	Lakhami 2	Cascade
Installed Capacity (MW)	6.40	9.50	15.90
Load Factor	c. 45%	c. 45%	c. 45%
Commercial Operation Date (COD)	17-Oct-2020	19-Aug-2020	
PPA Price (US cents/kWh)	6.00	6.00	6.00
PPA Coverage (Months)	8 Months (Sep-Apr)	8 Months (Sep-Apr)	8 Months (Sep-Apr)
PPA Coverage (Years)	10	10	10
PPA Expiration Date (Year)	2030	2030	2030

The hydroelectric power plants are equipped with top-quality machinery and equipment in line with the best industry practices, including turbines, hydraulic systems, generators, electrical equipment, transformers, penstocks, etc. Notably, the Company's hydroelectric power plants are equipped with turbo-generators manufactured in Austria, Western Europe.

Company Strategy

The Company's business strategy involves operating in the electricity/renewable energy market in Georgia, leveraging market opportunities, and capitalizing on the favourable market conditions.

In Georgia, an array of mechanisms exists to foster and incentivize the advancement of renewable energy sources. The primary objective is harnessing solar, wind, and hydro resources to produce more renewable energy. The Georgian government has also supported a novel model for the electricity market, envisaging the establishment of a more competitive and transparent market environment.

Environmental, Social, and corporate Governance (ESG) aspects, as well as Sustainable Development Goals (SDGs), are integral components of the Company's strategy. The Company adheres to higher international ESG standards, contributing to climate change mitigation and the preservation of natural resources. The Company is actively pursuing several SDGs, including affordable and clean energy, climate action, decent work and economic growth, quality education, gender equality, and more.

The specific goals of the Company encompass preserving the biodiversity of the Lakhmi River and preventing its degradation. For the Company, it is important to enhance the living conditions of the local population, promote employment, execute social projects, and maintain continuous, transparent communication that fosters enduring relationships with the local community. Additionally, through the utilization of renewable energy sources, the Company aims to amplify its contribution to eco-friendly energy production and reduce its adverse impact on the environment.

Brief Information About the Sector

Over the past decade, the demand for electricity in Georgia has consistently outpaced the supply, consequently heightening the country's reliance on imports. Electricity consumption is positively correlated with the growth of the country's Gross Domestic Product ("**GDP**").

Electricity consumption during 2015 and 2024 has increased at CAGR 3.2%, reaching 13.8 TWh, while the generation of renewable energy increased at CAGR 3.1% over the same period, reaching 14.2 TWh.

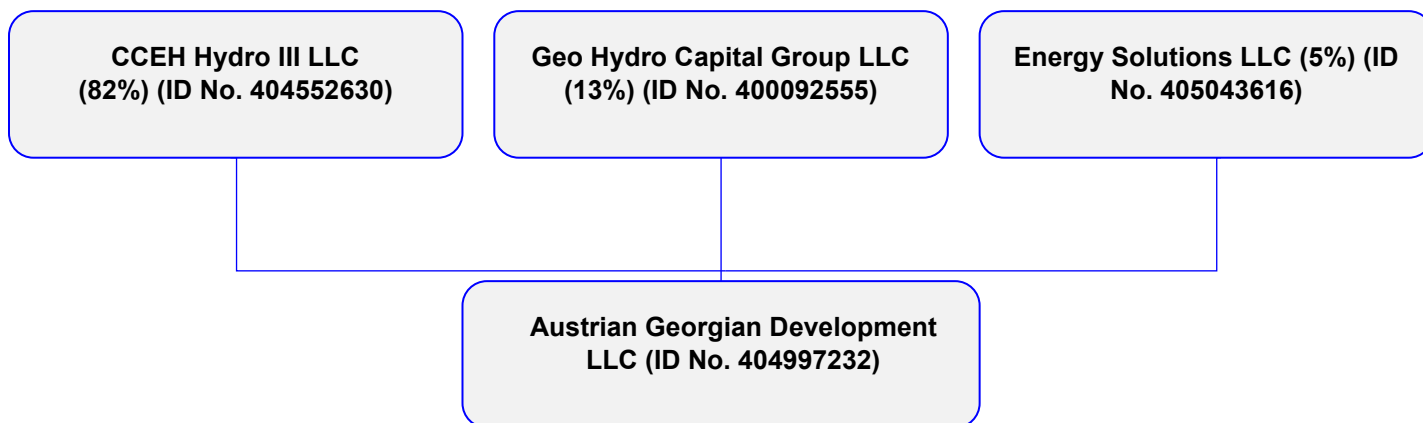
The slow pace of development of local renewable energy sources has led to both direct electricity imports and an increase in the share of thermal energy, which in turn relies on imported natural gas. Approximately 70% of the electricity demand in Georgia is met by hydroelectric power generation, 0.6% by wind power plants, 19% by thermal power plants, and the remaining 10% is balanced by electricity imports, primarily from Russia and Azerbaijan.

By the end of 2024, the total installed capacity of power stations in Georgia reached 4.6 gigawatts, with hydroelectric power stations accounting for 3.4 gigawatts, thermal and wind power stations accounting for 1.2 gigawatts and 20.7 megawatts, respectively¹.

¹ <https://www.gse.com.ge/communication/Publications/Ten-Year-Network-Development-Plan-of-Georgia>

The Current Organizational Structure of the Company

Figure 1: The current organizational structure of the Company



As of the date of the Prospectus, the ownership distribution of the Company's shares is as follows: 82% of the shares are owned by the CCEH Hydro III LLC, 13% by Geo Hydro Capital Group LLC, and 5% by Energy Solutions LLC.

For detailed information about the ultimate beneficial owners (UBO) of the Company, please refer to the Section "Shareholders".

The Key Management of the Company

Giorgi Abramishvili - serves as the General director of the Company. Mr. Abramishvili has 25 years of work experience across various industrial sectors, including holding significant managerial positions. Mr. Abramishvili has led large-scale energy projects at different stages of his career (including the 450 MW Namakhvani HPP, the 230 MW Gardabani TPP, the 16 MW Lakhami HPP, and the 250-kW power station).

It's worth noting that all projects were supported and financed by international investors and financial institutions, ensuring their execution in line with the best international practices. Additionally, Giorgi Abramishvili has held leadership positions within various energy organizations, including the Georgian Energy Development Fund, and he continues to lead the Georgian Renewable Energy Development Association (GREDA). Prior to his involvement in the energy sector, Mr. Abramishvili was actively engaged in real estate development, agriculture, education, and publishing activities (Dutch House, German Agency for International Cooperation - GIZ, Publishing House Siesta). Mr. Abramishvili graduated from Saarland University and also studied global energy management at the University of Colorado Boulder.

Archil Dzeladze - serves as the Technical Director of the Company. Archil Dzeladze has extensive experience in the energy sector, particularly in technical project development, expertise assessment, and facility operation. Over the course of his career, Mr. Dzeladze has held key positions in the field of hydro, thermal, and solar energy, collaborating with both international and local companies such as EDF, Stucky, Colenko, Electrowat, UkrHydro, Tesla (Georgia), and Enguri HPP.

Archil Dzeladze has overseen the design and construction of hydroelectric power plants, power transmission lines, and substations in Georgia, Eastern Europe, and CIS countries. Notably, he has been involved in projects such as Enguri HPP, Khudoni HPP, Lakhami HPP cascade, Aragvi HPP cascade, Ukrainian HPP, Gardabani TPP, and 500/330/220 kV power transmission lines in Georgia. As a member of the management team, Mr. Dzeladze collaborated on various projects with Posch & Partners Consulting Engineers, KfW, EBRD, World Bank, PA Government Services Inc./Winrock International, and others. Currently, Mr. Dzeladze oversees the operational stations: (i) the Lakhami 1 and Lakhami 2 HPPs, and (ii) the Aragvi 1 and Aragvi 2 HPPs.

For detailed information about the corporate governance structure of the Company, please refer to “Governing Body and Management”.

Brief Information on the Material Risk Factors Specific to the Company’s Business Activities

1. Typical risk factors of industry and economy:

- 1.1. Georgia is a developing country, therefore, there is a high risk of economic instability and investing;
- 1.2. The Company's activities may be significantly negatively affected by the devaluation of the national currency (Georgian Lari) in relation to the USD /currencies of other economically related countries;
- 1.3. The unstable geopolitical and economic environment both in Georgia and in the region may have a significant negative impact on the Georgian economy and the Company's business processes;
- 1.4. Economic instability and regional political tensions in Georgia's neighboring countries may have a significant negative impact on the Georgian economy and the Company's business activities;
- 1.5. Possible economic instability in Georgia may have a significant negative impact on the Company's business;
- 1.6. Unexpected events, such as: pandemic, natural disasters, state of emergency can have a serious negative impact on the Company;
- 1.7. The uncertainty in the Georgian judicial system may have a negative impact on the Company and investors;
- 1.8. Failure to comply with any current and/or future anti-money laundering or terrorist financing regulations could have a significant negative impact on the Company's operations;
- 1.9. Challenges related to the harmonization of Georgian legislation with EU legislation, as required by the Deep and Comprehensive Free Trade Agreement may arise;
- 1.10. Uncertainties in the Georgian payment system, which includes the risk of interpretations and/or future changes may result in taxes or fines being imposed on the Company;
- 1.11. The Company may be subject to the risk of litigation from its customers, suppliers and regulators;
- 1.12. The electricity market of Georgia is still in the process of transformation. There is uncertainty regarding market arrangements and the main drivers of market price formation, creating possible additional risks for the Company;
- 1.13. Based on the interests of the energy system, the activity of the hydroelectric plant can be limited by the central dispatcher.

2. Risk Factors Related to Company’s Activities:

- 2.1. The Company's income directly depends on the amount of generated electricity; Failure to achieve the planned (forecast) generation may lead to a significant decrease in income/risk of liquidity;
- 2.2. The Company's operational and financial stability is significantly dependent on the PPA signed with ESCO;
- 2.3. The Company may sell the electricity produced during September-April to ESCO within the framework of long-term power purchase agreements (PPA) and in the months of May-August (which are not covered by the PPA), the Company undertakes market risks which can be expressed in two sub-risks: 1) the risk of finding a receiver and 2) market price risk;
- 2.4. The Company's liquidity involves significant counterparty risk;
- 2.5. The ability to generate, distribute and supply electricity depends on the transmission system of Georgia;
- 2.6. The export of electricity depends on the proper functioning of the infrastructure between the countries and the availability of existing capacity. Inability to export and/or limited export can have a significant negative impact on the Company's income and profitability;
- 2.7. The Company has certain currency risk both in case of local and export sales;
- 2.8. Power plant maintenance and upgrades involve significant risks that can lead to unplanned power outages, reduced output and unexpected capital expenditures;
- 2.9. In case of late implementation of the capital project planned by the Company, the risk of receiving less income may be created;

- 2.10. Unexpected events, climatic conditions and natural disasters may pose a significant risk to the Company's operations;
- 2.11. The financial and operational stability of the Company significantly depends on the existence of a full-fledged insurance product. In case of no insurance and/or insufficient insurance, the operational and financial activities of the Company will face a significant risk;
- 2.12. The stability and sustainable development of the Company directly depends on a reasonable and long-term personnel policy;
- 2.13. Environmental, health and safety legislation;
- 2.14. Risk factors related to corporate governance standards;
- 2.15. Labor disputes and strikes, including local population walkouts and protests, may adversely affect the Company's production levels and profitability;
- 2.16. The minimum ecological cost to be maintained in the river during the period of water scarcity may significantly reduce the planned generation;
- 2.17. The future demands of the local population may present significant operational, social and financial challenges to the company.

Risk Factors

Any of the risks described below may have a material adverse effect on the Company's activity, financial condition and results of operation. Although the Company believes that the risk factors described below represent the principal risks associated with its operation, there may exist or arise additional risks, uncertainties or unforeseeable circumstances that the Company does not consider to be significant or of which the Company has no information.

Typical Risks of Industry and Economy

1.1. Georgia is a developing country, therefore, there is a high risk of economic instability and investing

The risk of investing in developing countries is quite high and the level of risk is determined, among other things, by the relative initial level of development of economic, social, political or legal systems. Georgia is a developing country and, therefore, it is fully exposed to the risks typical for developing markets. Therefore, it is important that investors consider and analyse the risks that may have a negative impact on such markets. These risks include, but are not limited to, high volatility in market economic conditions, limited liquidity, a relatively narrow export base, the country's current account deficit and frequent political, economic, social, legal and regulatory changes. Taking into consideration the above, the information contained in this Prospectus may change in the shortest period of time and the existing information may become outdated. It is true that the Government of Georgia has implemented important anti-corruption reforms, but in developing markets like Georgia, corruption and misuse of public funds are possible.

Companies operating in Georgia and developing markets in general can be affected by fluctuations in international capital markets, interest rates and the increase in financing costs which will automatically complicate the financial and liquidity situation of the business. Therefore, the Company cannot predict the impact that changes in global markets may have on the Georgian economy, directly on the Company's business activities, financial condition, results of operations and prospects, as well as on the trading price of the Bonds.

In addition, the availability of credit in emerging markets is significantly dependent on the degree of investor confidence in emerging markets as a whole. The reaction of international investors to events that occur in one emerging market has a chain effect and, in this case, the entire region or investment class loses its attractiveness to investors. Such events include reduction of credit rating, unreasonable intervention of the state or central bank in the country's economy, etc. Considering the described "contagious" effect, the difficulties created in developing economy countries may have a direct negative impact on the economy of Georgia. There have been many such events in the past when "contagious" effects played a major role in weakening emerging markets, including the Russian financial crisis in 1998, the global financial crisis of 2008-2009 that also affected the developed world, regional economic difficulties in 2014-2016 and ongoing political and economic instability in the region. There is no guarantee that such events will not take place again in the future.

The business activity of any company directly depends on the country's economic environment and level of development. A developed and stable economy means smooth business processes, better predictable economic and social environment translating into improved financial indicators. Contrary to this, unsustainable economic events have a negative impact on companies and their financial stability. The main source of income of the Company is the demand for manufactured products and the latter directly depends on the economic situation of the country and the economic well-being of the population. Negative developments in the national, regional or international economy may have a significant negative impact on the Company's financial or operational results and its ability to successfully develop and implement its strategy. The activities of the Company are affected not

only by internal factors, but also by such macroeconomic indicators, the management of which is beyond the sphere of control of the Company. Such indicators include but are not limited to: inflation or deflation, exchange rate fluctuations, access to financing, interest rate levels, etc. Such risks may of course materially and adversely affect the Company's business, financial condition and operating results. There is no guarantee that the Company will manage to mitigate the mentioned risks and, accordingly, avoid possible negative impacts.

By international standards, Georgia belongs to the category of transitional level, developing economies and its sovereign rating is not of the investment category. As of the date of preparation of the Prospectus, the following rating was assigned to Georgia by international rating agencies:

- Fitch Ratings – BB (Negative Outlook), update date: December 6, 2024;
- Moody's – Ba2 (Stable Outlook), update date: March 26, 2024;
- S&P Global Ratings – BB (Stable Outlook), update date: February 7, 2025.

1.2. The Company's activities may be significantly negatively affected by the devaluation of the national currency (Georgian Lari) in relation to the USD /currencies of other economically related countries

The national currency of Georgian "Lari" is a fully convertible currency, however there is no foreign exchange market for its conversion outside of Georgia. There is a market in Georgia for converting GEL into other currencies but the market size is limited. According to the data of the National Bank, its official fx reserves amounted to 3.4 billion USD as of December 31, 2024.

Significantly increased foreign exchange inflows allowed the National Bank to sharply increase USD reserves during 2023-2024, however it decreased by the end of 2024 due to depreciation of GEL-USD. Reserves can be used in the event that the exchange rate of the GEL is sharply devalued due to one-off factors as currency depreciation can have a substantially negative impact on the country's economy.

Over the years, the exchange rate of the GEL against the USD has changed significantly due to both external shocks and seasonal factors. Worth noting:

- 2015 global oil and industrial commodity price shock;
- Prohibition of direct flights by Russia in 2019;
- Problems caused by the coronavirus pandemic in 2020 (at which time the exchange rate reached its historical maximum, 3.48 GEL per 1 USD);
- Russia's invasion of Ukraine in 2022 (from February 24 to March 10, the GEL depreciated by approximately 12.8% against the USD).

At the start of military aggression by Russia on the territory of Ukraine, GEL was significantly devalued along with other currencies of the region. In the period between February 24 and March 10, 2022, GEL depreciated by 12.8% against the USD and the value of 1 USD amounted to 3.40 GEL. Despite the difficulties, Georgia's economy showed resilience to regional shocks and maintained high levels of capital inflows and domestic activity. As a result, the national currency began to strengthen and not only recovered the losses received in February and March, but even fell below the 2.5 mark. The strengthening of the local currency was significantly facilitated by the strict monetary policy implemented by the National Bank of Georgia.

The strength of the national currency depends on many political and economic factors, including the level of inflation in the country and measures taken by the National Bank. According to the estimates of the National Statistics Office of Georgia (hereinafter "**Geostat**"), the average annual inflation of consumer prices in Georgia was 2.6% in 2018, 4.9% in 2019, 5.2% in 2020, 9.6% in 2021, 11.9% in 2022, 2.5% in 2023 and 1.1% in 2024.. Although high inflation was a global challenge and was mainly caused by supply chain shortages, tight monetary policy helped the National Bank to reduce inflation to the target level. The target level of inflation is 3%. Maintaining inflation at the target level has an important role for the stable development of the economy. High inflation can lead to instability in currency and financial markets, lower consumer purchasing power and lower confidence in the financial system. The ongoing process of reducing the rate of inflation and the monetary policy

of the National Bank at the same time may contain some risk, which relatively strengthens the expectations of the devaluation of the exchange rate of the GEL in the future. Company has a certain part of assets and liabilities in different currencies. See detailed information in this regard in the chapter "*Operational and Financial Review*" - "*Foreign Exchange Risk*".

1.3. The unstable geopolitical and economic environment both in Georgia and in the region may have a significant negative impact on the Georgian economy and the Company's business processes

After regaining its independence in 1991, Georgia underwent a significant political transformation from a member republic of the Soviet Union to an independent, sovereign democracy.

Currently, Georgia faces several challenges, including the continued strained relationship with Russia and the need for further economic and political reforms. There can be no assurance that political and/or economic, business and investor-friendly reforms will continue or that these efforts will be successful; Also, such reforms and economic growth may be hindered by a change of government and/or refusal of the President, Parliament or other institutions to pursue reform policies.

The political tension in the country is very high and the environment is polarized. Polarization extends to almost all spheres/issues of political and public life, including public legitimacy of the results of the 2020 parliamentary elections, reaching political consensus on strategic issues, etc. A clear example of polarization is the parliamentary elections of 2020 which led to a political crisis of several months, in the overcoming of which the highest political figures and ambassadors of the EU/partner countries were actively involved. Constant political tension, high-profile cases related to the possible prosecution of political figures and pressure on the media negatively affect the country's reputation, its investment environment and economic development. The negative statements of various international players (EU, US Embassy, etc.), less progress of so-called "Associated Trio" on European integration matters compared to other countries and other recent or any further political instability may negatively affect Georgia's economic development, including the investment climate and private business activity.

Any negative political event has a negative impact on the economic or geopolitical stability of the country and can be very damaging to the business processes of the Company which in turn affects the financial indicators and the trading price of the Bonds.

On April 5, 2023, the US State Department sanctioned three current and one former judge for the "abuse of public office" and "engagement in corrupt activities". Sanctions also apply to their family members. The mentioned decision causes significant reputational damage to the justice system of Georgia and reduces its credibility.

Georgia held its parliamentary elections on October 26, 2024, where citizens elected 150 parliamentary members through a proportional representation system. The ruling party won the election. The 2024 election saw the second-highest voter turnout since 2012, with 2.1 million voter.

In addition, the existence of occupied regions (Abkhazia and Tskhinvali) in Georgia creates a certain risk of stability and security of the country which may cause significant damage to the activities of the Company. The hostilities started by Russia in the Tskhinvali region in August 2008 caused significant damage to Georgia's economy and major industrial sectors. The occupied territories remain a significant source of tension as the armed forces of the Russian Federation are deployed in Abkhazia and the Tskhinvali region. It should be noted that the 2008 war was followed by recognition of independence by Russia of Abkhazia and so-called South Ossetia, both occupied by Russia itself.

1.4. Economic instability and regional political tensions in Georgia's neighboring countries may have a significant negative impact on the Georgian economy and the Company's business activities

Georgia is located in the strategically important but politically tense region of Caucasus. Its land neighbors are the Russian Federation, Azerbaijan, Armenia and the Republic of Turkey.

During the last 3 decades, a number of political tensions and armed conflicts took place in the region:

- Armed attack of the Russian Federation on the Republic of Georgia, full-fledged military aggression and occupation of its sovereign territory - Abkhazia region (1991);
- So-called "First Chechen War", armed conflict in the North Caucasus (1994-1996);
- So-called "Second Chechen War", an armed conflict on the territory of Chechnya and in the border regions of the North Caucasus, which took place between the Russian Federation and the Chechen Republic of Ichkeria (1999-2009);
- Armed attack of the Russian Federation on the Republic of Georgia, full-fledged military aggression and occupation of its sovereign territory – Samachablo / Tskhinvali region (2008);
- Military conflict between Azerbaijan and Armenia, so-called "Karabakh" war (1991) and (2020).

As a result of the conflicts described above, 20% of the territory of the state of Georgia is occupied by the Russian Federation, which "demarcates" the occupied territory with de-facto border posts and barbed wire. It should be noted that Russia is systematically expanding its "borders", which turns the peaceful status quo into a "creeping" occupation.

There is no diplomatic connection between the two countries and relations are mainly economic and trade in nature. The deepening of economic relations with Russia and export to a familiar market on the one hand contributes to the development of the economy but on the other hand contains the risk of growing dependence on Russia. This is especially dangerous as the latter tries to use economic factors as political leverage. A clear example of this is: the ban on the export of wine and agricultural products (the Russian embargo of 2006), the restriction of flights (2019).

In 2020, the so-called "Karabakh" conflict was renewed after which a large part of the territory of Karabakh came under the control of Azerbaijan. Any conflict across the South Caucasus will have a negative impact on the entire region, including Georgia.

Russia's military aggression in Ukraine, which began in 2022, qualitatively changed not only the regional, but also the global security agenda. Any negative consequences already clearly seen are only partial and the real negative impact will only be seen after the end of the war. The current aggression has gone beyond the armed conflict of two countries and has become a global challenge.

In addition to massive military and humanitarian damage, the conflict has had a significant negative impact on the global economy, commodity markets, supply chains, etc. Each of these factors, independently and collectively, creates a significant economic challenge: increased prices, increased inflation, uncertain expectations, increased interest rates, etc. In response to Russia's aggression, the Western world imposed a number of sanctions packages.

The ongoing war is particularly noteworthy for Georgia given its geographical location and close trade relations with its neighboring countries. Any type of military aggression or tension in a small-scale and ethnically diverse region includes but is not limited to:

- significant human casualties;
- humanitarian crisis/refugee flows;
- economic and political instability;
- feeling of increased instability;
- reduced direct foreign investments;

- reduced support packages from European/western partners;
- terminated/postponed global transit/infrastructure projects and, in general, missed opportunities;
- large infrastructural damage;
- hindered economic growth;
- reduced tourist flows;
- Increased pressure on the national currency;
- increased fluctuation/instability (increased volatility);
- increased risks;
- increased interest rates/risk premiums; etc.

In addition to the territorial neighbourhood, the countries are the main trade and economic partners for each other. Consequently, in the conditions of such interdependence, the existing tension in one of the countries directly affects the region in terms of both security and economic development. Given the above, any negative event across the region could have a significant impact on both the Bonds' value and the Company's operational/credit risk.

As mentioned above, Russia's military aggression in February 2022 has already caused a humanitarian crisis and caused great economic damage not only to the economies of the countries involved in the war, but also to the region and the world.

It should be noted that the wave of migration resulting from the Russia-Ukraine war made a significant contribution to the economic growth of 2022, however, against the background of the significant positive contribution described, in case of a mass outflow of migrants for any reason, the risk of deterioration of the business and economic environment in the country will increase. However, on the other hand, in case of a quick resolution of the conflict, the recovery of the economic activity of Russia and Ukraine will have a positive effect on the economy of Georgia.

In addition to the current war, Russia's policy towards Georgia has repeatedly become an important challenge for the Georgian economy and one or another of its branches. An example of this is the imposition of an embargo on Georgian wine by Russia in 2006 which created great difficulties for the wine industry in the short and medium term. In addition, since July 8, 2019, Russia has banned direct flights to Georgia which has affected the tourism sector. The decrease in tourist flows from Russia had a significant impact on the foreign exchange market as well. According to the estimates of the National Bank of Georgia, by banning direct flights from Russia, the country received about 300 million USD less income from tourism than expected. However, notwithstanding the shock, Georgia's foreign balance improved in 2019 compared to 2018. As of May 15, 2023, the Russian government has lifted the ban on direct flights again, although the possibility of a future ban is certainly high and it is important for the country to reduce the risk of dependence. It should be noted that the resumption of flights between Russia and Georgia received a negative reaction from the country's western partners and the state of Ukraine imposed sanctions on the Georgian airline.

As mentioned above, the strained political relationship between Armenia and Azerbaijan is also a significant risk for Georgia's economy.

Also, the political or economic stability of Georgia can be affected by any of the following factors:

- Deterioration of Georgia's relations with Russia, including relations related to border and territorial disputes;
- Changes in the importance of Georgia as an energy transit country;
- Changes in the amount of aid provided to Georgia;
- Change in access to world export markets for Georgian manufacturers;
- Significant deterioration of relations between the countries of the region;
- Deterioration of the economic and financial situation in the countries of the region.

It should be noted that the economy of Georgia is a small open economy whose international trade policy is characterized by low tariffs and a free trade regime. In 2021, the level of foreign trade openness - (export of

goods and services + import of goods and services)/GDP - was 103.5% and in 2022 it was 117.3%. As a result, the economic and political changes in Georgia's trade partner countries have a significant impact on the Georgian economy. In neighboring countries, economic parameters (inflation, real GDP growth, exchange rates, etc.) are transferred to the economy of Georgia in the following ways: import, export, remittances, direct investments and others.

1.5. Possible economic instability in Georgia may have a significant negative impact on the Company's business

In the early 1990s, after the collapse of the Soviet Union, Georgian society and economy underwent a rapid transformation: from a one-party state with a centralized economy to a pluralist democracy with a market economy. This transformation was periodically characterized by significant instability which led to a decrease in GDP, hyperinflation, currency instability, a high level of public debt in relation to GDP, the existence of a "black" and "gray" market economy, a high level of unemployment and the impoverishment of part of the population of Georgia.

After the economic crisis of 2008 and 2009, since 2010 the economy of Georgia has grown again and maintained its growth rate. Before the start of pandemic in 2020, the average economic growth of Georgia in 2017-2019 was 4.9% (2017 - 4.8%, 2018 - 4.8%, 2019 - 5.0%). The Covid-19 pandemic has negatively affected both Georgia and the world economy. The harsh and unpredictable restrictions have affected many sectors. Among them, the tourism industry, whose specific share in the economy of Georgia in a stable period is quite significant, was significantly affected. According to Geostat data, in 2020, the economy of Georgia decreased by 6.8% compared to 2019. In 2021, there was a significant recovery of the economy when the real GDP increased by 10.5% and compared to 2019, by 3.0%. The high growth rate was maintained in 2022 as well and the annual GDP growth amounted to 10.1%. Despite the negative effects of the Russia-Ukraine war, a faster-than-expected recovery in tourism, growth in remittances, favorable export momentum and immigration-related flows helped to strengthen the economy's external position and sustain domestic demand. Meanwhile, real GDP has grown by 7.8% and 9.5% in 2023 and 2024, respectively

During the pandemic, there was also a significant increase in government debt. In particular, in 2020, according to the data of the Ministry of Finance, the ratio of government debt to GDP exceeded the 60% mark determined by the "Economic Freedom Act" and amounted to 60.2%. For comparison, in 2018, this figure was 38.9% and in 2019 - 40.4%. However, high economic growth and the government's fiscal consolidation policy led to a reduction in the government debt-to-GDP ratio to 49.7% and 41.4% in 2021 and 2022, respectively. One of the goals of the government's financial policy is also to reduce the share of external debt in the total debt and, if necessary, increase the share of domestic debt.

Georgia's economic growth prospects continue to face significant challenges, including exchange rate volatility, weakening financial stability, inflation, budget performance and capital outflows. The market crisis and the deterioration of the economy in Georgia may have a serious negative impact on the purchasing power and financial situation of the customers of the Company in Georgia which will lead to a reduction in spending by customers in the post-Covid period. Uncertain and volatile global economic conditions starting with and resulting from the coronavirus period may lead to significant political and macroeconomic reforms worldwide. This may have a significant impact on the economy of Georgia, which may adversely affect the business, financial condition and operations of the Company.

1.6. Unexpected events, such as: pandemic, natural disasters, state of emergency can have a serious negative impact on the Company

Unexpected events such as pandemics, natural disasters, emergencies, natural disasters and others may have a serious negative impact on the Company. Such events may damage the assets owned by the Company, thereby preventing the Company from carrying out operations. In such a case, the Company will lose its revenue and means of making profit.

In addition, unexpected and mass events may have a material impact on the country's economy, including the country's population which is the main source of income for the Company. As a result of such large-scale and unexpected negative events, such as the COVID-19 pandemic, there is a loss of jobs, a decline in the economy which increases the level of poverty of the population.

On March 11, 2020, Covid-19 was declared a pandemic by the World Health Organization and lasted for 3 years. According to the World Health Organization (WHO), there are more than 765 million cases of infection and 7 million deaths caused by the coronavirus worldwide. The World Health Organization lifted the global pandemic status of COVID-19 on May 5, 2023.

1.7. The uncertainty in the Georgian judicial system may have a negative impact on the Company and investors

Georgia, as a developing democracy, is still developing an adequate legal framework and judicial system necessary for the proper functioning of a market economy. The main legal framework was created in the 1990s. Over the past few years, fundamental civil, tax, administrative and other basic legislation has been enacted or significantly changed. The novelty of the mentioned legislation and the rapid development of the legal system of Georgia gave rise to doubts regarding the quality and enforceability of these legislative acts, as well as uncertainty and inconsistency in their application. However, to the extent that Georgian legislation and its interpretation can be unclear and variable, it is possible that responsible persons and enterprises, despite all reasonable measures taken by them, may still fail to comply with the requirements of the legislation. This can lead to significant negative consequences, including: accrued fines, litigation, revoked permits, frozen bank accounts, etc.

In addition, the judicial system of Georgia has undergone several stages of reform, within the framework of which the High Council of Justice of Georgia was reformed in the direction of depoliticization, the law on General Courts was changed, the electronic rule of distribution of cases was implemented and other important changes took place. Nevertheless, there are still legitimate questions about the court's impartiality, efficiency, experience and knowledge. Due to the lack of trust in alternative means of dispute resolution in Georgia and the lack of human resources in the courts, trials can last for years. As a rule, compared to other western countries, Georgian judges have less experience in commercial and corporate law. Court precedents have no binding force on subsequent decisions and companies are largely left to rely on the response of legislative authority. Uncertainty in Georgia's judicial system may adversely affect Georgia's economy, which in turn may have a material adverse effect on the Company's business, financial condition and results of operations.

1.8. Failure to comply with any current and/or future anti-money laundering or terrorist financing regulations could have a significant negative impact on the Company's operations

Although the Company fully complies with all the requirements of the applicable legislation aimed at preventing the use of the Company as a means of facilitating money laundering or terrorist financing, there is no guarantee that these measures will completely eliminate the possible risk. If in the future the Company fails to fully comply with timely reporting requirements or other anti-money laundering regulations or if it is in any way associated with money laundering or terrorist financing, this may have a material adverse effect on the Company, including that the Company becoming the subject to criminal liability.

1.9. Challenges related to the harmonization of Georgian legislation with EU legislation, as required by the Deep and Comprehensive Free Trade Agreement may arise

On June 27, 2014, Georgia signed the Association Agreement with the European Union (hereinafter "Association Agreement") and created a deep and comprehensive free trade area with the European Union which provides for the liberalization of bilateral trade with the European Union. Even though it is true that the implementation of the Association Agreement signed with the European Union will create new opportunities for business, it may also create certain challenges for enterprises, family farms and the state. The implementation

of the Association Agreement signed with the European Union and the Agreement on the Deep and Comprehensive Free Trade requires Georgia to harmonize its legislation with the trade and sectoral legislation of the European Union which is associated with many challenges, especially related to environmental protection and consumer safety, including product and information security. in the fields. Based on the above, in terms of the existing legal requirements for the activity of the Company, significant changes have been made or may be made in the corporate law or securities market legislation:

- **Law of Georgia on Entrepreneurs:** On August 2, 2021, the Parliament of Georgia adopted a new edition of the Law of Georgia On Entrepreneurs" which came into effect on January 1, 2022. The updated legislation had a significant impact on the legal regulation of enterprise registration, founding documents, corporate governance and other issues. Regarding the management of the enterprise, modern principles of corporate management are also significantly represented in the law. Within the framework of the updated law, the types of capital are separated, the concept of a business letter is introduced, the legal nature of the relationship between the director and the enterprise is clarified, etc.
- **Legislation of the securities market:** within the framework of the Association Agreement, the legislation related to securities is brought closer to the legislation of the European Union. For example, in 2020, a number of legislative changes in the regulatory framework of securities entered into force which served the purpose of harmonization, among them, the National Bank of Georgia approved the rule on the prohibition of insider trading, market manipulation and improper disclosure of insider information, as well as - the regulations of Company of public securities were refined, the requirements regarding the submission and publication of periodic or current reports by them have been defined.

In addition, since Georgia became a member of the World Trade Organization in 2000, it has been gradually harmonizing its trade legislation with EU norms and practices. For example, 2013 amendments to the Labor Code required employers to pay overtime hours, severance pay (in the amount of 1- or 2-months' salary), established workers' rights to challenge employers' decisions in court in the event of dismissal without a clear cause and created guaranteed basic working conditions.

Additionally, there may be other changes in government policy, including the implementation of announced government initiatives or declared approaches. In addition, the implementation of the Association Agreement signed with the European Union may impose a significant burden on regulatory bodies. In the conditions of limited resources, there is a risk that resources will be redistributed in different directions, the pace of current reforms will decrease and the effectiveness will decrease.

In order to achieve harmonization with EU legislation or as a result of other implemented or anticipated changes, the Company may be required to modify its policies and procedures to comply with changes in laws and regulations. The Company and management believe that new additional changes are expected, although it is difficult to predict the content of the changes, their possible impact or compliance with new laws at this stage.

1.10. Uncertainties in the Georgian payment system, which includes the risk of interpretations and/or future changes may result in taxes or fines being imposed on the Company

The first tax code in Georgia was adopted in 1997 and the current tax code was adopted in 2010 and entered into force on January 1, 2011. As a result, Georgia has a much shorter experience of enforcing tax legislation than countries with developed market economies where the practice of tax legislation has been formed over decades and in some cases centuries. This fact creates challenges for companies to comply with the requirements of the tax legislation as such requirements are often unclear and there is a possibility of different interpretations of them. Consequently, there is a risk for companies that the actions taken by them to comply with the requirements of the tax legislation will be considered inappropriate by the tax authorities.

In addition, there are changes and amendments to the tax laws that may cause unusual difficulties for the Company and its business. From January 1, 2017, the so-called "Estonian Model" entered into force according

to which enterprises are exempted from profit tax except when they pay out dividends. In addition, the regulations related to the payment of VAT were changed, including advance payments (except for advance payments paid in the framework of long-term regular services) became the object of taxation with value added tax.

On January 1, 2018, amendments to the tax law regarding the taxation of interest income received from securities admitted to the stock exchange through public offering came into force. In particular, according to Article 82 of the Tax Code, the income received from the delivery of debt securities issued by a resident legal entity in Georgia through a public offering and admitted to trading on an organized market recognized by the National Bank of Georgia and income received in the form of interest from a debt security issued by a resident legal entity through a public offering in Georgia and admitted to trading on an organized market recognized by the National Bank of Georgia until January 1, 2026 are exempt from income tax. In addition, according to Article 99 of the Code, the income received by a non-resident from the delivery of a debt security issued by a resident legal entity through a public offering in Georgia and admitted to trading on an organized market recognized by the National Bank of Georgia, which does not belong to the non-resident's permanent establishment in Georgia and income received by a non-resident in the form of interest from a debt security issued by a resident legal entity through a public offering in Georgia before January 1, 2026 and admitted to trading on an organized market recognized by the National Bank of Georgia, which does not belong to a permanent establishment of this non-resident in Georgia, are exempted from profit tax.

Until December 2030, according to the Organic Law of Georgia on Economic Freedom, the introduction of new general-state taxes (except excise) or the increase of existing tax rates (except for some exceptional cases) is possible only through a referendum. However, Georgia is a country with a parliamentary democracy and a change of government may lead to a change in tax policy. Such changes may include an increase in the tax rate, the introduction of new forms of tax administration, the cancellation of existing benefits, etc. Any such changes in tax laws or government policies could have a material adverse effect.

In December 2022, the corporate taxation model, which applies to financial institutions, was adjusted and entered into force from 2023. The previous tax model, effective through fiscal year 2022, assumed a 15% corporate tax rate that was charged to banks' taxable profits (the difference between the consolidated income received during the calendar year and the amount of deductions provided for in the Tax Code of Georgia). The existing corporate tax rate for banks has been increased from 15% to 20% and will come into effect for 2023 taxable income.

The Company believes that it has currently and in the past fully complied with the requirements of the tax laws, although there is a possibility that the tax authorities will interpret the requirements of the law differently, which may result in the imposition of taxes or penalties on the Company. There is also a risk that the Company may be subject to fines and penalties as a result of regular tax audits.

However, tax laws and government tax policies may change in the future, including as a result of a change in government. Such changes may involve the imposition of new taxes or increased taxes on the Company or the Company's customers, which could have a material adverse effect on the Company's business.

1.11. The Company may be subject to the risk of litigation from its customers, suppliers and regulators

A wide circle of interested parties is related to the Company which includes relevant regulatory bodies, state, customers, employees and various service providers. If the Company fails to meet its contractual obligations, it may be exposed to the risk of litigation which may adversely affect its reputation and operations.

Labor disputes and/or strikes, walkouts, protests and actions by the local population may cause disruptions to the Company's operations which could adversely affect the Company's operations and financial results. As of the date of Prospectus preparation, the Company has not had any legal disputes that would have a significant impact on its financial position or reputation (for more information on ongoing legal disputes, please see the chapter "Main Activities" - sub-chapter "Litigation"), however, there is no guarantee that such disputes will not arise in the future.

1.12. The electricity market of Georgia is still in the process of transformation. There is uncertainty regarding market arrangements and the main drivers of market price formation, creating possible additional risks for the Company

The planned market reforms will lead to a change in the principles of market organization and trading in the electricity market which is described in detail in the chapter "Regulatory Environment". There is still uncertainty regarding market organization and the main drivers of market price formation. The impact of the changes made within the framework of the market reform on the Company is especially important in the months of May-August when the Company sells electricity on the free market. The opening of the organized markets has been delayed several times: originally planned for July 2021, then postponed to January 2022, then postponed to March 2022, then to September 2022, then to July 2023. According to the latest information, the market should start functioning on July 1, 2024. The delay in the opening of organized markets increases the uncertainty and unpredictability of the sector.

With the transition to the new market model, electricity producers for the part of electricity sales not covered by the PPA contract will be held accountable and have to settle the imbalance (for an explanation of the principle of imbalance settlement, see the chapter "Regulatory Environment"). In the event of a difference between the planned and actual generated energies, the company may have to pay certain imbalance fees or receive compensation for system assistance. Settlement in the unbalance part will be carried out monthly, deducting the hourly unbalanced values.

1.13. Based on the interests of the energy system, the activity of the hydroelectric plant can be limited by the central dispatcher

Although the Lakhami hydroelectric plants are unregulated generating facilities, the [GSE] central dispatch office has the authority to limit its operations (total shutdown, capacity reduction, etc.) based on the interests and needs of the country's energy system.

Additionally, during the period of water abundance, it is possible for the dispatcher of the distribution company (JSC Energo-Pro Georgia) to request a reduction in the generation of HPPs included in its substation, in order to avoid substation overloading and accidents, since the aforementioned capacity is limited. These periods include mainly the period of May and June, however, in the case of Lakhami 1 and Lakhami 2 HPPs, in practice, the issue of the mentioned limitation came up on the agenda only a few times and even in these cases, the request to reduce the generation was related to the reduction of capacity to no more than 1 MW for a few hours. After the implementation of the new market model, in the case of the mentioned limitation, the distribution company will have to deduct station imbalances based on the network rules (technological violation investigation instructions) and accordingly, such accidental imbalances will no longer affect the Company's income.

Risk Factors Related to Company's Activities

2.1. The Company's income directly depends on the amount of generated electricity; Failure to achieve the planned (forecast) generation may lead to a significant decrease in income/risk of liquidity

Lakhami HPP represents the so-called a run-of-river hydroelectric power plant that generates electricity in real time based on the water level in the river.

The amount of water in the river directly depends on the precipitation (frequency of rain, amount of snowfall and intensity of melting) at the scale of the region and watershed. Accordingly, the amount of generated electricity is different depending on the hydrological year (abundance of water, scarcity of water, etc.). It should be noted that it is impossible to fully determine the meteorological cycle and it is often the case that a year without precipitation is followed by a period with little precipitation and/or vice versa.

Although there are theoretical accounts of possible water levels and their statistical distributions (probabilities), such calculations are subject to large errors. The number of precipitation gauges and meteorological stations and the necessary infrastructure across the region is very scarce and there is no empirical data. Therefore, guidance is provided by extrapolation and/or old archival data.

Considering the described, the most reliable source is the actual operational (empirical) data. However, the project is commercially operational from the second half of 2020 which leads to the scarcity of data and significantly reduces the reliability of the statistical forecast.

Forecast risk is further increased by ongoing global climate change, the exact impact of which cannot be assessed at this stage.

Generation is one of the main sources of income; Accordingly, in case of water scarcity and/or failure to achieve the forecast, the risk of income decrease increases.

2.2 The Company's operational and financial stability is significantly dependent on the PPA signed with ESCO

Lakhami 1 and Lakhami 2 sell their generated electricity to ESCO in the period of September-April under PPAs (for more details on existing PPAs, see the chapter "*Company Information*"). The existence of PPAs is beneficial for the Company in many ways, including: it insures the price risk, due to the guaranteed price, the Company benefits from many financial products and obligations, it relatively reduces the counterparty and credit risk as ESCO is a state-affiliated company. Hence, after the cancellation of PPAs, the operational/financial risks of the Company will increase significantly and the Company will become the bearer of market/commercial risk throughout the year. By default, the PPA may be terminated by either party for breach of contract, force majeure, or default (if not cured despite of written notice). PPAs are limited to a specific term and are not subject to renewal. Accordingly, there is no guarantee that after the expiry of the PPAs, the Company will be able to sell the electricity on favorable terms, as the latter will depend on many market/non-market conditions.

It shall be mentioned that the government's position regarding the issuance of PPAs has changed and tightened since 2017. In particular, in 2017, based on the recommendation of the International Monetary Fund (IMF), the government announced a de-facto moratorium on signing new PPAs. In addition, in 2018, the Government of Georgia adopted a new law On Public-Private Partnership which tightened and regulated in more detail the procedures and prerequisites for issuing contractual guarantees from the state to the investor in connection with the guaranteed purchase of electricity. Since 2020, in order to replace the PPA support model, the government has started introducing new support mechanisms more compatible with the principles of market organization envisaged by the energy reform. In particular, in 2020, the government has approved a different, so-called Feed-in Premium – FIP, support scheme to support the implementation of projects of renewable energy power plants, which was subsequently replaced once again by a new support scheme in December 2022. The new support scheme involves supporting the implementation of renewable energy power plant project through the "Contract for Difference" (CfD) mechanism which is obtained by participating in and winning capacity auctions. However, it should be noted that in order to benefit from both the Feed-in Premium (FIP) support model and the "Contract for Difference" (CfD) support model, it is necessary to complete the process of reforms of the Georgian electricity market and launch the organized markets.

As a result, as far as the Company is aware, no such memorandum was signed during the years 2017-2022 which provided for guaranteed purchase conditions. However, despite the changes in Georgia's energy regulations, the PPAs already concluded by the government remain in force and ESCO will continue to fulfill its obligations under the existing PPAs during their validity period. The Company's operational and financial stability is significantly dependent on the existing PPA and in the event of its termination or expiration, the Company's financial and operational stability would be at significant risk. However, it should be noted that the PPAs signed with ESCO expire after the maturity date of the Bonds.

2.3. The Company may sell the electricity produced during September-April to ESCO within the framework of long-term power purchase agreements (PPA) and in the months of May-August (which are not covered by the PPA), the Company undertakes market risks which can be expressed in two sub-risks: 1) the risk of finding a receiver and 2) market price risk

The energy year differs from the calendar year and is divided into 2 seasons:

- Winter season, which includes 8 months (September-April); and
- Summer season, which covers 4 months (May-August).

Winter season: Company has signed a guaranteed purchase agreement (PPA) with the commercial operator of the market. According to the PPA, the Company has the right to sell the electricity generated during the winter season to ESCO at a fixed rate: 6 USD cents per kWh for 10 years after the start of commercial operation.

Summer season: In the months not covered by the PPA, the Company has the option to sell all or part of the generated electricity on the local market (based on independent bilateral contracts), export it to the Republic of Turkey (subject to access to the transmission line) or sell it to ESCO as balancing energy. As a rule, the peak output of the hydroelectric plant occurs in the months of May-June which leads to a large concentration of income in the summer season and increases the risk of concentration of income.

The price of electricity is variable and depends on (i) generation and number of consumers, (ii) opportunity cost of electricity production (for example, gas price in case of thermal plants) and (iii) import/export prices. It is clear that price formation is a rather complex process and its forecast (especially in the short and medium term) always contains the risk of error.

The Company has a long-term contract signed and registered with JSC Georgian State Electrosystem (hereinafter "**GSE**") on the provision of electricity (power) transmission and dispatching services within the framework of which the Company has the right to export electricity as a priority to the Republic of Turkey. However, it shall be mentioned that it is still not completely clear how the contract will be enforced in the future, under the conditions of the new market model envisaged by the energy reform.

As described above, during the term of the PPA, the Company is insured for commercial risk during the winter season but retains significant market risk during the summer season. Commercial risk is particularly significant in the context of the announced new market which is in the process of development and many issues are still unclear.

2.4. The Company's liquidity involves significant counterparty risk

In the sale of electricity, risks related to the counterparty/buyer are significant, including but not limited to the following:

- Full registration of the cost of delivered electricity;
- Timely registration of the cost of delivered electricity;
- Timely and due execution of all operations related to the sale of goods.

As mentioned above, during the winter season, the Company has the right to sell the generated electricity within the framework of the signed PPA. The duration of the contract and its fixed pricing make ESCO one of the most important contractors. Therefore, any risk related to ESCO and its solvency is a threat to the Company.

Counterparty risk is much higher in the case of summer season sales when seasonal (relatively short-term) contracts are signed and especially increases when exporting to Turkey.

Accordingly, any risk associated with the counterparty and its solvency may have a material adverse effect on the Company's operations, profitability and liquidity. The Company's negative liquidity is due to its specific circumstances. For more information, please refer to the Overview of Securities subsection - Statement on Working Capital and the Key Information about the Company subsection - Selected Key Financial Ratios.

2.5. The ability to generate, distribute and supply electricity depends on the transmission system of Georgia

The electricity generated from the generation source is transmitted through the transmission infrastructure of the country. Any failure of the transmission system of Georgia, including those caused by a natural disaster, improper maintenance or network development and/or delayed correction of the failure, may prevent the Company from supplying electricity to the buyer (wholesale supplier, direct consumer, universal supplier) and accordingly, to reduce the revenues planned by the Company management.

The smooth/unimpeded operation of the transmission infrastructure is completely beyond the control of the Company and depends on the transmission system and distribution system operators.

Consequently, transmission system disruptions may have a significant negative impact on the Company's operations, revenues and financial condition.

2.6. The export of electricity depends on the proper functioning of the infrastructure between the countries and the availability of existing capacity. Inability to export and/or limited export can have a significant negative impact on the Company's income and profitability

During the summer season, the Company has the opportunity to export the generated electricity to the Republic of Turkey, although the capacity of the transmission line between the countries is limited.

The export volume is determined in 3 stages:

- Agreement on the total volume of export (Net Transfer Capacity) between the system operators of the two countries,
- Distribution of the agreed volume between sources of (local) generation willing to export,
- Working minimum operational limit of the transmission line - overflow capacity should not be less than 35 MW.

All three stages mentioned above are beyond the control of the Company and depend on (i) both the agreement between the countries and (ii) the capacity allocation by the Transmission System Operator (hereinafter "**TSO**"). In case of high demand, as a rule, the system operator allocates the export capacity through the bandwidth auction platform² and in a special auction.³

It should be noted that if the settlement price is determined within the framework of the long-term Transmission (Dispatch) Agreement ("TDA") and/or as a result of the auction, the export capacity is acquired according to the "Take-or-Pay" principle. The "Take-or-Pay" principle obliges the Company to fully absorb (export) the allocated capacity, otherwise the Company will be charged for the unused capacity.

Accordingly, the project's profitability and export realizations are significantly dependent on the export volume and utilization of the received volume. Failing and/or limited export can have a significant negative impact on the profitability and profitability of the Company.

2.7. The Company has certain currency risk both in case of local and export sales

In most case of electricity trading, the price of electricity is denominated in USD and settlement is made in local currency according to the exchange rate set by the National Bank. Therefore, from the end of sales to the moment of settlement, the Company has a currency risk.

In the case of exports, direct contracts are usually denominated in USD, although contracts in Turkey are denominated in Turkish Lira. Therefore, in the case of different currencies, there is a significant currency risk on the side of the contractor.

The Company's main expenses, such as payroll, bank debt repayments and interest expense and other liabilities on the Company's balance sheet, are denominated in USD, therefore, material currency fluctuations may have a negative impact on the Company and its profitability, for more information please refer to – Currency Risk.

² <https://gcat.com.ge/>

³ See Auction Rules: <https://gcat.com.ge/documents>

2.8. Power plant maintenance and upgrades involve significant risks that can lead to unplanned power outages, reduced output and unexpected capital expenditures

The smooth operation of the hydroelectric power station implies the meticulous monitoring of the processes, the infrastructure of the hydroelectric power station, the technical efficiency and the response to the possible challenge in the shortest possible time.

There are risks associated with the operation of the Company's power plants, such as: equipment or process failure, performance below expected levels of output or efficiency, inefficient transportation of electricity to customers, due to transmission infrastructure problems. These types of malfunctions and enforcement problems can be caused by many factors, including operational errors or the wear and tear of assets over time. As a result, the Company's generation facilities may require scheduled or capital repairs and improvements.

It is difficult to foresee such type of expenses in advance and it is necessary for the Company to finance periodical capital projects (contingent maintenance works) based on certain assumptions.

Risks arising from (i) non-implementation or even (ii) delay of capital projects include (without limitation): reduced efficiency, less generation than planned, increased technical interruptions (frequency of emergency outages), reduced line capacity, physical wear and tear of infrastructure, technological and software getting out of security, etc.

Both the decrease in generation and possible increase in operating costs significantly reduce the profitability of the Company and threaten sustainability and long-term liquidity.

Therefore, in case of non-implementation of maintenance-renovation and capital programs for the hydroelectric plant on time, there is a significant risk of reduction of efficiency and/or profitability.

2.9. In case of late implementation of the capital project planned by the Company, the risk of receiving less income may be created

Lakhami HPP supplies the generated electricity to the grid through (i) Lakhami-Sagergila and (ii) Sagergila-Khudon connecting power transmission lines.

In addition, the Company implements a capital program which provides for the implementation of certain technical works in the Khudoni substation. The Lakhami HPP project will allow to avoid possible restrictions (based on line load and/or capacity) and fully comply with the technical conditions issued by the electricity distribution company.

In case of non-implementation/delayed implementation of the project, there is a risk of limited access to the line which may reduce the revenue to be received.

2.10. Unexpected events, climatic conditions and natural disasters may pose a significant risk to the Company's operations

Unexpected events such as: natural disasters, emergencies, etc. may have a serious negative impact on the operations of the Company, damage its property or otherwise negatively affect its activities.

The threat of climatic and natural events is one of the most important operational risks for business. The Lakhami River, like most rivers of Svaneti, is fed by streams coming out of glaciers which largely accounts for its unstable character and significant variability of water flows.

In the conditions of rapid melting of glaciers, unexpected water flows ("flooding") occur which may cause significant damage to the HPP infrastructure (water intake, HPP building, etc.). Hence, the riverbed and protective structures are at risk of damage.

In flooding conditions, the composition of water is changed and contains natural particles which may also pose a threat not only to the construction parts of the HPP, but also to hydro-mechanical and electro-mechanical devices.

The negative impact of possible flooding goes beyond the risk of physical damage. The rapid melting of the glacier represents a "missed opportunity" for the project as it creates a single flow of water that should have been distributed over weeks and days. As a "run-of-river" hydroelectric plant, Lakhami will not be able to maintain the received flows and will therefore use only a small portion of the received water.

Georgia is a seismically active region. Seismic risks are particularly high in the mountainous region (adjacent parts of the greater Caucasus). Therefore, possible tectonic shifts are significant risks for the region and the project.

In addition to climatic events, the Company may be affected by many unexpected events, including and for example: a pandemic. On March 11, 2020, the World Health Organization declared the spread of Covid-19 a global pandemic. The pandemic and resulting regulations have significantly reduced economic activity, leading to a 5% drop in electricity consumption in 2020. The reduction in consumption in the local market did not have a negative impact on the price of electricity, as local supply was significantly lower than local demand. It should be noted that the net import of electricity in 2020 remained at the level of the previous year. Also, compared to 2019, the selling price of electricity did not change significantly (the average weighted balance price of ESCO increased by 4% compared to the previous year). Consequently, the pandemic has not had a significant negative impact on electricity producers.

Considering the above, any natural, unexpected and climatic risk poses a direct threat to the efficient and sustainable operation of the project.

2.11. The financial and operational stability of the Company significantly depends on the existence of a full-fledged insurance product. In case of no insurance and/or insufficient insurance, the operational and financial activities of the Company will face a significant risk

The Company maintains property, plant, business continuity and third-party liability insurance in accordance with industry standards and local best practices. For more details, see the chapter "*Principal Activities*" - sub-chapter "*Insurance*".

Any insurance is a balance between the benefits received (premium received) and the cost payable (policy fee). The insurance product partially covers possible risks and the existence of an insurance policy certainly does not imply that all the risks facing the Company are insured and/or that all possible damages will be compensated in the event of an insured event. It is also possible that the resulting loss will significantly exceed the insurance limit, which means that some part of the damage may not be compensated. This risk applies to all existing insurance packages (property, machinery, business continuity and third-party liability insurance).

Any insurance policy contains exceptions, limitations, franchises, which create an additional barrier to obtaining the insurance limit.

It must be noted that the prices in the insurance market are changing and depending on the change, it is possible that the insurance package may be revised and adapted to the existing reality.

Local insurance companies reinsure similar products with foreign (high-end) insurance companies. It is true that, on the one hand, it reduces their financial risks, but on the other hand, it increases possible bureaucracy and creates an additional barrier.

Although the Company strictly controls the continuity of insurance, (i) dynamic changes (deterioration) in the insurance market, (ii) significant increase in the prices of insurance products, (iii) restriction of access to insurance products may lead to termination or significant reduction of insurance packages.

In case of no insurance and/or insufficient insurance, the operational and financial activities of the Company will face a significant risk.

2.12. The stability and sustainable development of the Company directly depends on a reasonable and long-term personnel policy

The successful operation of the Company is directly dependent on human capital which includes management, administrative and technical personnel, as well as social and environmental specialists.

If the Company is unable to attract and/or retain qualified top management, engineers, specialists and support personnel, this may create and increase operational and administrative costs, hinder the efficient conduct of operations, which will adversely affect the Company's performance and financial results.

Due to the nature of the Company's business, the Company requires highly skilled employees, engineers and technicians and the recruitment and retention of such employees may be particularly difficult. Considering the location of the project, it is a special challenge to hire qualified personnel directly at the hydroelectric plant and, most importantly, to retain them in the medium/long term perspective.

The importance of qualified personnel will increase especially in the transitional stage when the country will open the electric energy market which contains many challenges along with opportunities and requires detailed knowledge of the industry, legal framework and market procedures from the management.

The high demand for qualified personnel and the growing competition in the labor market may further complicate the recruitment of qualified personnel and long-term cooperation. The described risk may materialize in increased inefficiency and operational downtime, reduced generation and increased operating and maintenance/supervision costs.

2.13. Environmental, health and safety legislation

The Company is subject to various environmental, health and safety laws and regulations governing, among others, issues related to the health and safety of employees, possible environmental pollution caused by the Company's operations, etc. The implementation of certain operations/activities by the Company is also subject to obtaining environmental and safety permits or authorizations from various governmental bodies.

Although the Company's operations comply in all material respects with applicable environmental, health and safety rules and regulations in Georgia as of the date of this prospectus, there is no guarantee of future compliance. If the Company fails to comply with any such rule or regulation, it may be subject to liability and sanctions/penalties for breach of statutory requirements and potentially result in a breach of the Company's contractual obligations to third parties under any agreement under which the Company is required to comply with applicable environmental, health and safety rules and regulations.

Violations of applicable laws (environmental damage, loss of employee life or serious injury to health) may result in disruption of the Company's operations or damage to its reputation. The Company may be subject to significant liability for damages in the form of fines and/or compensation. The occurrence of any such event may also cause disruption of the Company's operations and incur additional costs.

Although environmental laws and regulations have a significant impact on the Company's operations, it is impossible to accurately predict how such laws and regulations will affect the Company's business. In the future, it is possible that some law will be changed, updated or tightened. Any of the foregoing events could have a material adverse effect on the Company's business, results of operations and financial condition.

2.15. Labor disputes and strikes, including local population walkouts and protests, may adversely affect the Company's production levels and profitability

As of the date of Prospectus preparation, the Company has 16 employees. Employed personnel includes all employees - management, administrative staff, technical workers, operators, etc. The staff is one of the main driving forces of the company's operations. Labor disputes and/or strikes, local population demonstrations,

protests and actions may cause interruptions in the operation of the Company which will adversely affect the Company's operations and financial results.

Although there has been no strike or litigation or voluntary default against the Company, there can be no assurance that similar events will not occur in the future. Any labor dispute or disruption could have a material adverse effect on the Company's business, results of operations and financial condition.

2.16. The minimum ecological cost to be maintained in the river during the period of water scarcity may significantly reduce the planned generation

In order to promote the local ecosystem and ichthyofauna, the hydroelectric power station has a fish tank in which the minimum ecological consumption of water is constantly carried out. The water level in the river is variable and directly depends on the rainfall (frequency of rain, amount of snowfall and melting intensity) at the scale of the region and catchment basin. The minimum environmental cost is predetermined and its implementation is imposed by the state, therefore its amount does not depend on water variability. The minimum environmental cost to be maintained in the river during the period of water scarcity may significantly reduce the planned generation.

2.17. The future demands of the local population may present significant operational, social and financial challenges to the company

There are frequent cases when in order to solve their problems, the local population turns to the HPP administration, not to the representatives of the local self-government. Therefore, the Company may need to repair and rehabilitate the social infrastructure projects financed during the construction of the HPP. This creates certain challenges for the effective activity and liquidity of the Company.

The most important condition for risk minimization is the detailed consideration of all social requirements and, if necessary, their satisfaction. However, it should be noted that the complete prevention of risks is beyond the control of the Company.

Principal Activities

Key Information About the Company

The Company is LLC “Austrian Georgian Development”.

Address: Georgia, Tbilisi, Vake district, s. Euli Street, №5/Jikia Street, №10, Flat 37

Country of registration: Georgia.

Regulatory legislation: Legislation of Georgia.

Date of establishment: June 18, 2013.

The Company is engaged in operating HPPs (including production and trading of electricity) along with the associated investment, operational, financial, and other related activities.

The Company signed a Memorandum of Understanding (MoU) with the Government of Georgia on October 19, 2016 (date of amendment - December 3, 2019). The Company owns and operates cascade of two HPPs, Lakhami 1 and Lakhami 2, in the Samegrelo-Zemo Svaneti region, specifically in the village Lakhami, Mestia Municipality. The aggregate installed capacity of the renewable energy assets owned by the Company is 15.9 MW, with an annual generation of 62.2 GWh, and an average load factor of approximately 45%. Each hydroelectric power station encompasses a water conduit, fishway, penstocks, and powerhouse building. Construction began in 2018 and was successfully completed in 2020.

Both power stations of the Company operate under a long-term PPA signed with ESCO (for more detailed information about the PPA please refer to the “Industry” – subsection “Support for the Development of Renewable Energy Sources”).

Operating Activities

The activities of the Company involve the construction and operation of Lakhami 1 and Lakhami 2, cascade-type HPPs.

The Company sells electricity both on the local market and through exports to the Republic of Türkiye.

Under the PPA, during the first 10 years of operation, the Company has the option to sell electricity exclusively to ESCO for 8 months (September-April) at a maximum price of 6.00 US cents/kWh, or sell electricity to any party in Georgia. Within the framework of the memorandum signed with the state, the Company also has the right to export electricity to Republic of Türkiye during the remaining 4 months (May-August).

Table 2: Technical and commercial parameters of Lakhami 1 and Lakhami 2 HPPs

HPPs	Lakhami 1	Lakhami 2	Cascade
Installed Capacity (MW)	6.40	9.50	15.90
Load Factor	c. 45%	c. 45%	c. 45%
Commercial Operation Date (COD)	17-Oct-2020	19-Aug-2020	
PPA Price (US cents/kWh)	6.00	6.00	6.00
PPA Coverage (Months)	8 Months (Sep-Apr)	8 Months (Sep-Apr)	8 Months (Sep-Apr)
PPA Coverage (Years)	10	10	10
PPA Expiration Date (Year)	2030	2030	2030

Lakhami 1 hydroelectric power plant - is a run-of-river type power station with an installed capacity of 6.4 MW, located in the Samegrelo-Zemo Svaneti region. The construction commenced in 2018 and was completed in 2020. The commercial operation of Lakhami 1 HPP started on October 17, 2020.

Lakhami 2 hydroelectric power plant - is a run-of-river type power station with an installed capacity of 9.5 MW, located in the Samegrelo-Zemo Svaneti region. The construction commenced in 2018 and was completed in 2020. The commercial operation of Lakhami 2 HPP started on August 19, 2020.

The total project cost (excluding VAT) amounts to approximately USD 31.0 million (equivalent to around USD 1.95 million per megawatt). As indicated, from September to April the Company has the right to sell electricity, as described in the current Power Purchase Agreement, at a rate of 6.00 US cents/kWh during the initial 10 years following the commencement of electricity generation. For the remaining months of the year, sales can be conducted in accordance with bilateral agreements.

Within the framework and conditions of the PPA agreement, the HPPs sold approximately 47% of the 2024 generation to ESCO. It's worth noting that within the framework of the memorandum signed with the government, the Company has the option to export electricity to the Republic of Türkiye (via Akhaltsikhe-Borcka interconnection line with priority access rights).

In 2021, the Company fully sold 42,944 MWh of electricity produced to the local market. In 2022, the local sales of the Company reached 48,083 MWh, representing a 12% increase compared to the previous year. In addition to the growth in local market sales, the Company managed to sell an additional 14,076 MWh in the export market, accounting for 22.6% of the total generation in 2022. The distribution of generation by sales for 2021-2022⁴ is presented in the chart below.

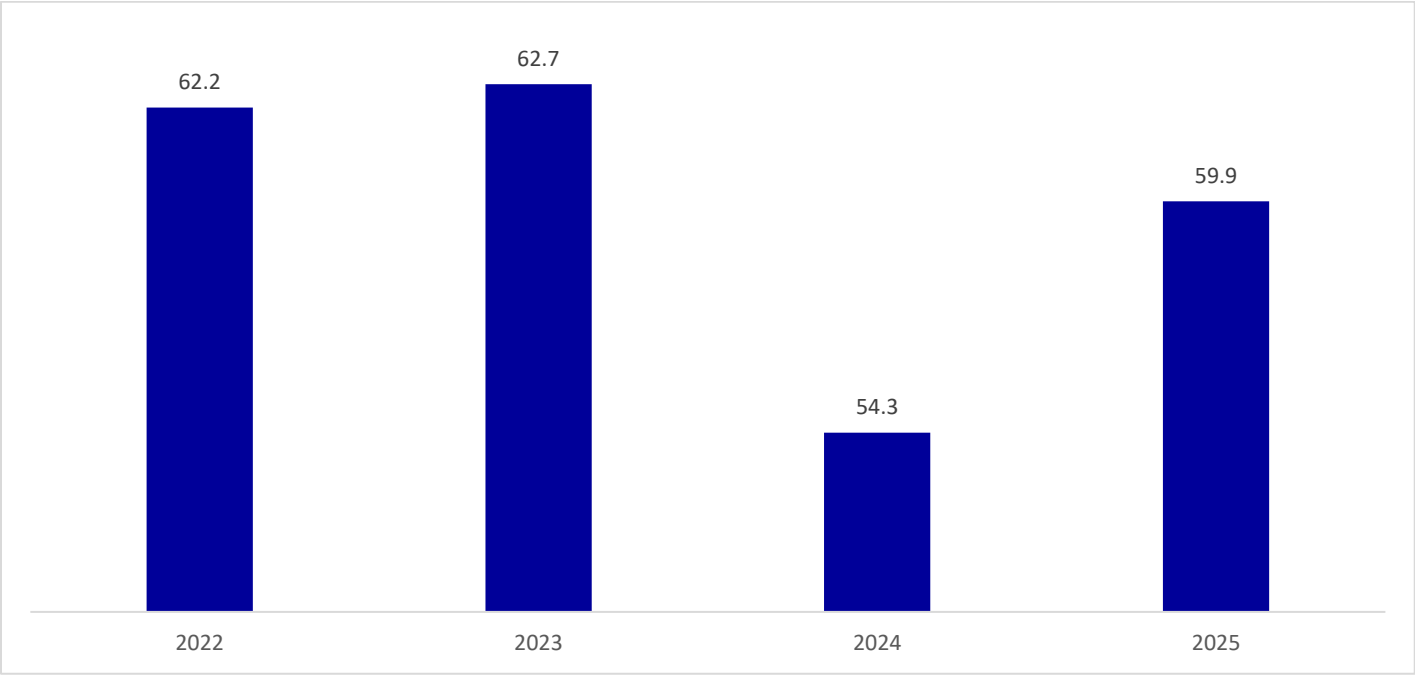
In 2022, the Company exported a significant portion of its May-June production to the Republic of Türkiye through a direct contract. As for the similar period in 2023, trading contracts were signed with local companies. However, the primary local buyer, in turn, exported a substantial portion of the generation to the Republic of Türkiye. In 2022, the Company's sales, were distributed as follows: ESCO (PPA) accounted for 50%, local market sales for 27%, and export to Türkiye 23%.

In 2023, the portion of electricity sold to ESCO represented 51% of the Company's total power generation. During this period, total generation increased by 7.6% compared to the previous year, reaching 40,584 MWh.

In 2024 and 2025, similar to 2022, the company executed electricity export to Türkiye and sold the residual generation on local market.

⁴ The year 2021 does not reflect the actual performance of the cascade, as the power station's operation was partially halted from May 16, 2021, to June 26, 2021, due to technical delays that were promptly rectified in accordance with the terms of the existing warranty agreement.

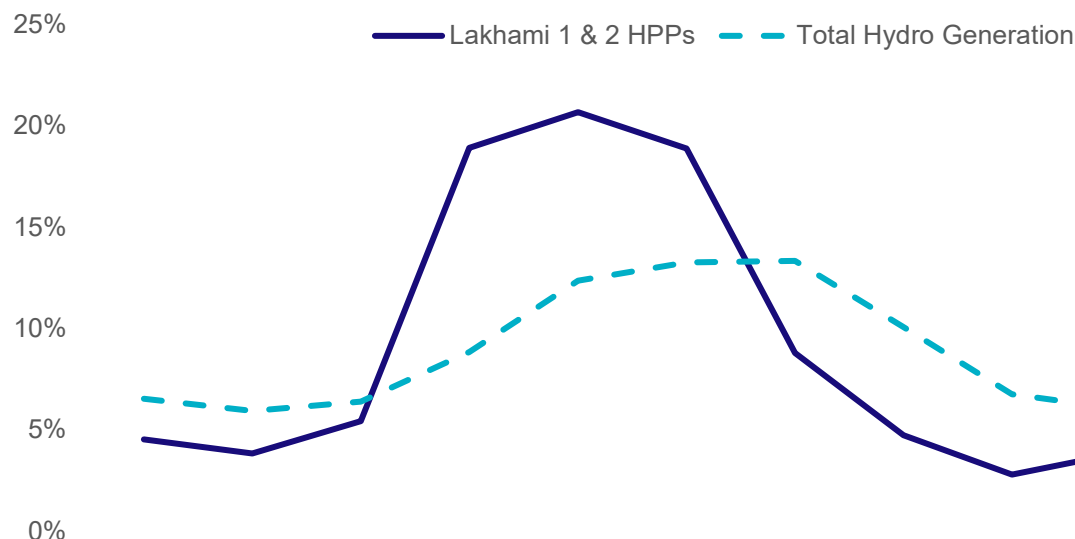
Chart 1: Electricity Generation by the Company 2021-2025, MWh



The hydroelectric power plants are equipped with state-of-the-art technologies and facilities that adhere to the industry's best practices, including turbines, hydraulic systems, generators, electrical equipment, transformers, penstocks, etc. In particular, the power plants of the Company are equipped with Austrian-made turbo-generators manufactured in Western Europe.

The Lakhami HPPs represent the run-of-river type hydroelectric power plants, generating real-time electricity based on the river's water level. For this type of HPPs the availability of water is seasonal. The strongest flow of water usually occurs in May-June. The water volume in the river directly depends on the amount of precipitation across the region and rainfall frequency, snow accumulation, and melt intensity. It's worth noting that, based on the aforementioned facts, the quantity of generated electricity varies not only annually but also within the hydrological year.

Chart 2: Generation Seasonality



As depicted in the above graph, the cascade of Lakhami HPPs experiences peak periods throughout the year in April-June. It's worth noting that the April peak period enables the Company to achieve high generation during the months covered by PPA, during which it reliably sells electricity at a premium price of 6.0 US cents. Significant Milestones in Business Development

- **September 12, 2013:** A Memorandum of Understanding (MoU) was signed between the Government of Georgia and the Company with the aim of providing technical and economic research for the hydroelectric power plants construction project
- **November 26, 2015:** The company has been granted the right to build the Lakhami HPPs on land allocated by the Government of Georgia for a duration of 49 years.
- **October 19, 2016:** The Company has signed a memorandum with the Government of Georgia, granting it the right to fully sell the electricity generated during the winter season (September-April) to ESCO for the initial 10 years of operation. Additionally, the Company was granted a right to export electricity to Republic of Türkiye during the summer months via Black Sea Transmission Network.
- **December 3, 2019:** Following the change in the ownership structure of the Company, an updated memorandum was signed, in which a small change was made in the commercial conditions, Lakhami 1 and Lakhami 2 HPPs now were allowed to sell electricity to ESCO and/or another local buyer at their discretion during the winter season. The memorandum also specified the terms of commissioning of the projects.
- **June 25 and September 10, 2020:** The hydroelectric power plants Lakhami 2 and Lakhami 1 were commissioned. The stations underwent testing from July 28 and October 6 and commenced commercial operations on August 19 and October 17, respectively.
- **August 13, 2020:** PPA was signed with ESCO for the Lakhami 1 and Lakhami 2 HPPs. The contracts were registered by JSC Georgian State Electrosystem on October 27, 2020, and came into effect from the moment of the stations' commencement of commercial operation.

- **March 17, 2021:** Within the framework of the existing memorandum, the Company has entered into a long-term electricity transmission agreement with the JSC Georgian State Electrosystem. As per this agreement, Lakhami 1 and Lakhami 2 HPPs have been granted preferential access to the Black Sea Transmission Network connecting to the Republic of Türkiye during the summer months (May-August).
- **May-July, 2022:** The Company successfully exported electricity to the Republic of Türkiye, marking a significant step forward.
- **October 16, 2023:** The Company successfully issued first retail-oriented bond in Georgian market in the amount of US\$ 15.0 MM.
- **May-July, 2024:** The Company successfully exported electricity to the Republic of Türkiye
- **May-July, 2025:** The Company successfully exported electricity to the Republic of Türkiye

Competitive Strengths of the Company

Positive Electricity Market Dynamics

The Company is benefiting from positive dynamics in the electricity market, partially driven by (i) increasing demand for electricity, (ii) supply shortages compared to growing demand, and (iii) slow development of renewable power plants in Georgia. Electricity is being imported to meet the rising demand. As a result, Georgia has gradually transformed into a net electricity importer.

The management anticipates a continued growth in electricity demand. These growth expectations are based on (i) GDP growth projections, closely linked to electricity demand, as well as (ii) an increased demand for household appliances and the rapidly expanding tourism sector.

The increasing share of imported electricity in local supply exerts additional pressure on electricity prices. Generally, imported electricity (direct imports or generated from imported natural gas by thermal power plants) comes at a higher cost than locally produced electricity. Further imbalances between demand and supply are likely to necessitate supplement of more expensive electricity, which is likely to affect and determine the market price in most months.

Balanced foreign exchange position

The Company has hedged currency risks, as the price is denominated in US dollars under the PPA agreements and remains unchanged throughout the contract term. Furthermore, the market pricing for electricity in Georgia is predominantly conducted in US dollars, as the key determinants of prices are also driven in US dollars, including notably the price of imported electricity, various long-term agreements, etc. Additionally, the Company's statement of cash flows reveals that the significant outflows are associated with loan repayments and salaries denominated in US dollars (for more details, refer to the "Capitalization and Indebtedness"). This effectively mitigated the risk against the depreciation of the Georgian Lari for the Company, which is particularly crucial given recent fluctuations in US dollar to Georgian Lari exchange rate.

A stable and predictable cash flows are driven by significant PPA coverage and low capital expenditures on maintenance

The Company benefits from stable and predictable cash flows, largely driven by high revenue visibility (based on PPA agreements), low capital expenditures, and minimal technical losses. Lakhami 1 and Lakhami 2 hydroelectric power plants sell a significant portion of their generated electricity under PPA agreements signed with ESCO. The PPA contract is valid from September to April, while from May to August, the electricity is sold at market prices based on bilateral agreements. It's worth noting that Lakhami 1 and Lakhami 2 HPPs generate

about half of their output during the months covered by the PPA (in 2022, for those 8 months, they produced 50.3% of the total annual generation). The fixed price in the PPA contract enhances forecast reliability.

Given that the power plants commenced operation in the latter half of 2020, the need for significant capital expenditures on their maintenance is relatively low. This is partially attributed to the fact that a significant portion of technical servicing work, including all relevant maintenance activities, is already incorporated within operational expenses. Additionally, during the initial 10 years of operation, HPPs require very few repair works.

Favorable regulatory environment with additional opportunities anticipated as a result of electricity market deregulation

The Georgian electricity market is in the process of deregulation, both in terms of consumption and generation. The first major wave of deregulation occurred in May 2018, when large electricity consumers transitioned from regulated pricing mechanisms to a market-based approach. After 2018, deregulation affected every consumer with monthly consumption exceeding 0.4 GWh, and connected to a power transmission line with capacities ranging from 35 to 110 kilowatts. These changes led to a tripling of the volume of the deregulated electricity market in Georgia. Further waves of deregulation are already planned, including (i) the introduction of stricter criteria for monthly consumption and (ii) the voltage of the connected power transmission line. Starting from 2026, it is planned to deregulate all customer types except residential consumers and small businesses.

When it comes to supply side, all hydroelectric power plants (regardless of capacity) commissioned after August 2008 are fully deregulated in terms of determining electricity prices, while older power stations are being gradually deregulated. In particular, amendments were made in June 2017 to the existing Georgian Law on Electricity and Natural Gas to remove regulation from all power plants constructed before August 1, 2008, with a project capacity of less than 40 MW. Later, in 2021 and 2022, hydroelectric power plants with an installed capacity of up to 50 MW, up to 65 and then up to 75 MW were deregulated. Simultaneously with this process, deregulation of a significant portion of power stations will be implemented progressively. In this context, deregulation pertains to the market price of electricity, while in terms of licensing, power stations with project capacities up to 15 megawatts (small power stations) are deregulated.

The management believes that the deregulation of the energy market will have a positive impact on electricity selling prices, considering the increased market liquidity and free market pricing, which in turn will be due to the increase in the number of profit-oriented market players and the diversification of sales.

Highly experienced Supervisory Board and Management team

The governing body of the Company consists of professionals with years of experience in the business sector and possess the necessary qualifications for the successful development of the Company (for more detailed information about the management team, please refer to the “Governing Body and Management”). The members of the Company's Supervisory Board bring extensive experience in managing successful companies across various sectors (energy, finance, banking, tourism, agriculture, natural resources, etc.). Of particular note is the long-standing experience of the management in the energy sector, which, among other things, creates a strong foundation for successful operations.

Strategy and Objectives

The Company directly manages operational and fully functional renewable energy assets. At this stage, the Company does not anticipate any significant changes in its operations or the implementation of significant/large-scale projects. More specifically, the key elements of the Company's business strategy are as follows:

Capitalizing on the opportunities within the electricity market and leveraging favorable market conditions

Numerous resolutions and support mechanisms exist to promote the production of solar, wind, and hydro energy in Georgia as part of Georgia's climate change strategy 2030, the Climate Change Strategy and Action Plan

(CCSAP), and the Georgian law on Promoting the Generation and Consumption of Energy from Renewable Sources. Renewable energy sources are regarded as the future's primary and valuable energy production sources, compared to existing conventional methods.

The Company's efforts are directed towards capitalizing on the opportunities presented by the electricity market in Georgia and leveraging favorable conditions. With the gradual alignment of the energy market structure with EU directives, a more liquid, competitive, and transparent market will be established. In 2020, the Georgian government adopted the concept of a new electricity market model.

The concept of the new market model has defined and established new functions and responsibilities for market participants. It envisions the introduction of day-ahead, intraday, bilateral agreements, balancing markets, and ancillary services markets. The operator of the day-ahead and intraday trading markets is JSC Georgian Energy Exchange, while the operator of the balancing and support markets is JSC Georgian State Electrosystem. These entities are currently operating in a testing and simulation mode, involving all market participants. Starting from July 2024, the day-ahead and intraday trading markets, as well as the balancing markets, are planned to be launched. As a result, companies will engage in hourly buying and selling of electricity based on plans, and balancing payments will be settled according to actual data. It should be noted that the new renewable energy support scheme developed by the government envisages the signing of contracts for the difference in price (CfD) with the persons selected as a result of the capacity auction, in case of successful completion of the feasibility study stage. In contrast to the PPA format (in which the full output of the plant is purchased by ESCO at an agreed price during the period covered by the PPA), the power plant using the new support mechanism (CfD) must ensure the delivery and sale of the generated electricity to the relevant segment of the wholesale market (day-ahead market). Based on price difference agreements, ESCO will compensate the power plant using the support scheme for the negative difference between the price fixed in the day ahead market and the price offered in the auction, and if the price fixed in the day-ahead market is higher than the price offered in the auction, the difference must be compensated by the power plant to ESCO. Therefore, the opening of the reformed markets is a necessary prerequisite for launching the new scheme to support renewable energy sources.

Overall, Georgia's renewable energy business is expected to adopt planned reforms in the electricity market, which will have an even more positive impact on electricity prices.

Environmental, Social, and corporate Governance (ESG) aspects, as well as Sustainable Development Goals (SDGs), are integral components of the Company's strategy

The Company's approach to ESG matters is reflected in the Company's strategy and management principles, all of which adhere to the highest ESG standards such as the environmental and social standards of IFC and EIB. The business of utilizing renewable energy sources contributes to climate change mitigation and the preservation of natural resources. Green projects prevent environmental pollution from escalating since emissions are minimized during the operation of renewable energy facilities, thereby averting environmental degradation. Collectively, these efforts aid Georgia's transformation into a more sustainable economy with reduced emissions.

The company actively contributes to the achievement of the following Sustainable Development Goals (SDGs):

- Goal 1: No Poverty
- Goal 4: Quality Education
- Goal 5: Gender Equality
- Goal 6: Clean Water and Sanitation
- Goal 7: Affordable and Clean Energy
- Goal 8: Decent Work and Economic Growth
- Goal 13: Climate Action
- Goal 14: Life Below Water
- Goal 17: Partnerships for the Goals

The Company's goal is to preserve the biodiversity of the Lakhami River and prevent its destruction. An example of this is the existence of the fishway of Lakhami HPPs, which ensures minimal ecological impact in the lower reaches of the river and facilitates the unimpeded migration of fish species (such as the river trout) included in Red List of Georgia. Additionally, the Company has developed a monitoring program for the ichthyofauna of the Lakhami River, which is implemented in collaboration with leading Georgian and international environmental consulting firms.

Since the beginning of the Lakhami HPPs project, the Company has been taking care of improving the living conditions of the local population. The positive impact and benefits of the Lakhami project include the employment of locals during the construction phase (about 100 local residents were employed during the active construction phase), as well as the implementation of such social projects as: in Lakhami village (i) drinking water system project, through which 50 families of Lakhami village are connected for uninterrupted water supply at the water reservoir, (ii) replacement of old utility poles and electrical wiring leading to electrification of Lakhami and Lukhi villages, (iii) construction of ritual house for 500 people, (iv) Mestia Museum restoration, (v) construction of pedestrian bridges in Lakhami and Lukhi villages and (vi) fencing of Lakhami village cemetery. It should be noted that the Company adheres to the so-called principles of good neighbourliness, therefore social support was provided not only in the village of Lakhami, but also included the villages of Lukhi and Mestia.

Investments

Capital Expenditures

The Company partnered with several prominent companies from both international and local markets as part of the HPP cascade project (involving 2 hydroelectric power plants). The goal was to construct exceptionally high-quality hydropower facilities.

In addition to the turbines, the Company purchased electromechanical equipment from Global Hydro for about USD 5 million. The construction was started by the Turkish company Synergy and finished by the Company. The total cost of the construction work was around USD 17 million.

In total, the capital expenditures for both HPPs amount to approximately USD 31 million.

The following table show the list of suppliers of important technical equipment for HPPs with whom the Company has been in active collaboration that persists to this day.

Table 3: Names of the technical equipment suppliers

Equipment	Company	Country of Manufacture
Turbines	Global Hydro	Austria / Germany
Hydraulic System	Global Hydro	Austria / Germany
Generator	Nidec Leroy-Somer	France
Electrical Equipment	Global Hydro	Austria / Germany
Transformers	Hitachi ABB	Republic of Türkiye
Penstocks	Mazlum; Superlit	Republic of Türkiye

Insurance

Taking into account the best international or local industry practices, the Company ensures comprehensive insurance in respect of their business, properties, liabilities, and health/safety of employees. Insurance against potential risks covers the critical areas crucial for business operations. Consequently, the insurance coverage includes, but is not limited to, all property risk, machinery breakdown/damage, risks related to natural disasters, business interruption and loss of profit, as well as comprehensive third-party liability.

Competitive Market Positioning

This section presents the key financial information of the Company in relation to other market participants. Below are two competing companies that share similarities with the Company based on operational comparability and scale. The table provides data extracted from individual company reports.

- Energy Development Georgia LLC (ID No. 404485188) – Sashuala HPP, Sashuala HPP 1 and Sashuala HPP 2

The company's primary activity is generation and sale of electricity in Georgia. The Sashuala cascade consists of a total of 3 HPPs with the aggregate installed capacity of 15.25 MW: Sashuala HPP (2.25 MW, commissioned in 2022), Sashuala HPP 1 (8.00 MW, commissioned in 2020), and Sashuala HPP 2 (5.00 MW, commissioned in 2019).

- Bakhvi Hydro Power LLC (ID No. 205270810) – Bakhvi 3

The company's primary activity is the ownership and operation of a hydroelectric power plant. The company was initially established following the Partnership Agreement between Rotterman Georgia LLC and Georgian Hydro Power LLC. In particular to install, launch and utilize jointly the Hydro Power Plant “Bakhvi 3” (10 MW⁵) on the River Bakhvistkali in Ozurgeti region, Georgia. The hydro power plant is in full operation since summer 2015.

Information Regarding Key Contracts

Major contracts of the Company include a Memorandum of Understanding (MoU) among the Government of Georgia, ESCO, GSE, JSC United Energy System SAKRUSENERGO, and the Company. The MoU was signed on October 19, 2016 (Amendment Date - December 3, 2019), and in 2021, within the framework of the existing memorandum, a long-term electricity transmission agreement was signed with Georgian State Electrosystem (GSE), according to which the Lakhami 1 and Lakhami 2 HPPs received preferential access to the Black Sea transmission network connecting Turkey during the summer months (May-August). The terms of the MoU of the Company concerning contracts are as follows:

- In order to ensure energy supply for Georgia, during the winter months of each year (September-April) for a period of initial 10 years following the commissioning of the power plants, the actual electricity generated by the power stations must be fully sold in the local market;
- During the summer months of each calendar year within the initial operational period, the Company is authorized, at its discretion, to sell the generated electricity in the local market and/or export in any direction, in accordance with the terms specified in the legislation of Georgia and the memorandum;
- During the winter months of each year within the initial operational period, the sale of electricity generated by the power station must be conducted in accordance with the PPA signed with ESCO, at a tariff of 6 US cents/kWh.
- The Company is authorized to sell electricity at its discretion during the summer period (May-August), including selling in the local market and/or exporting in any direction, in accordance with Georgian legislation.
- For a period of initial 10 years after the power plant is commissioned, during the summer months of each calendar year, for the purpose of exporting the electricity generated by the power plant, GSE is obligated to provide the necessary dispatch and transmission services to the company. Additionally, to transmit the electricity generated by the power station to the border of the Republic of Türkiye, GSE is required to provide the Company with the necessary capacity on its part of the Akhaltsikhe–Borcka transmission line, during the summer months of each calendar year of the initial operational period. During this period the total volume of electricity transmitted via the Akhaltsikhe–Borcka transmission line (combined with other export volumes) should be sufficient for the functioning of the 500/400/220 kV substation “Akhaltsikhe” within the permissible limits set by technical parameters. GSE provides the services in accordance with the terms of the transmission and dispatch agreement signed with the Company, based on the take-or-pay principle.

⁵ Source: ww.ghp.ge

Industry Description

Electricity market participants and current structure

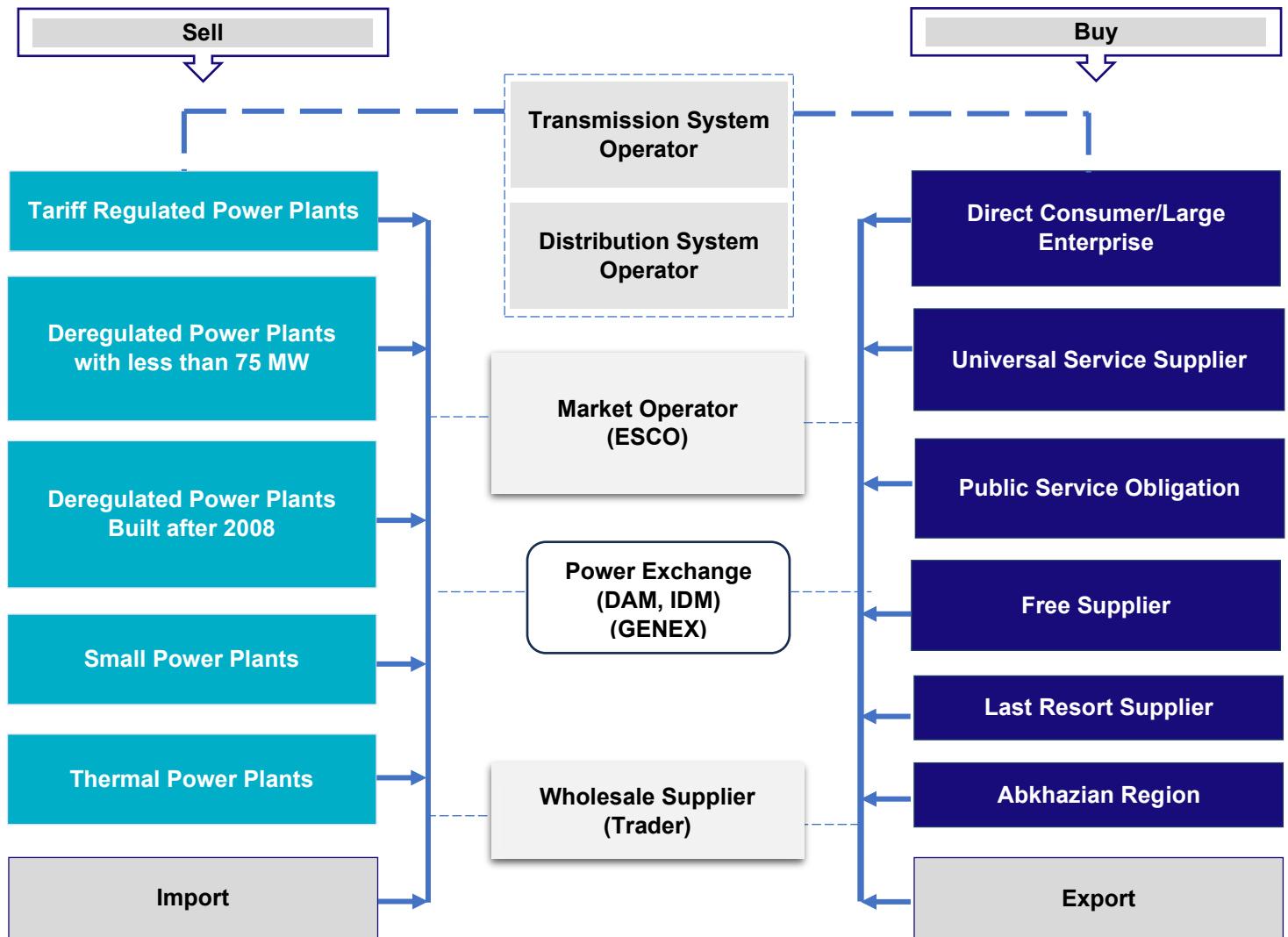
According to the current legislation of Georgia, the Georgian electricity market consists of wholesale and retail segments, each governed by specific regulations to ensure efficiency, competition, and reliability in the energy sector.

Wholesale Market Structure

Currently, Georgia is undergoing significant energy sector reforms, implementing a transitional model for electricity sales in the wholesale market. This model aims to enhance market efficiency, transparency, and competition in alignment with international best practices. The wholesale market participants include the following:

- **Power Producers:** Hydro power plants ("HPPs"), Thermal Power Plants ("TPP") and Wind power plant ("WPP").
- **Direct Consumers** - Enterprises that meet the criteria defined for direct consumers and can purchase electricity only on the wholesale market (as a result of the reform, the concept of direct consumer and qualification criteria will be replaced by the concept and qualification criteria of "large consumer").
- **Wholesale Suppliers** – Enterprise that buys electricity from an electricity producer or importer and sells it directly to a consumer or exporter.
- **Free Supplier** – Enterprise that supplies electricity to retail customers at an unregulated market price.
- **Universal Service Supplier ("USS")** - Enterprise defined by the Georgian Government Decree, that supplies electricity to household consumers and small enterprises, through cooperation with the Electricity Market Operator and electricity producers under Public Service obligation ("**PSO**") (if necessary, with other electricity producers). PSO refers to a mandatory duty imposed by the Government on companies to ensure the protection of certain public interests.
- **Supplier of Last Resort ("SLR")**– Enterprise, defined by the Georgian Government decree, that supplies electricity for a limited period and under regulated conditions to those retail customers who could not choose or lost an electricity supplier due to particular circumstances.
- **Power Producers under Public Service Obligation**– Enterprises, defined by the Georgian Government decree, that provides electricity to retail customers meeting certain criteria specified by the "Electricity Market Model Concept" approved the Resolution # 246 of the Government of Georgia ("GoG") of 2020.
- **Large Consumer** – Enterprise that has the right to trade in the wholesale power market, bilateral, Day Ahead Market ("**DAM**") and Intra Day Markets ("**IDM**"), for which it must be registered as a member of the balancing group in the Balancing and Ancillary Service Market ("**BM**"), as well as DAM & IDM participant. It also has the right to trade in the retail market and choose several suppliers.
- **Importer** – Enterprise that will receive, sell and/or consume electricity from outside of Georgia at one or more receiving points. The activity of importer is deregulated and does not require a license.
- **Exporter** - Enterprise that sells electricity (power) outside of Georgia at the delivery point. The activity of exporter is deregulated and does not require a license.
- **Electricity Market Operator (Electricity System Commercial Operator ("ESCO"))** - Enterprise that is responsible for the organization of certain segments of the Georgian electricity market.
- **Transmission System Operator ("TSO")** - Organization providing grid and system services to the wholesale market.
- **Distribution System Operator ("DSO")** - Organization providing grid services to the retail grid together with TSO. The costs of running the transmission and the distribution grid are compensated by the tariff set by the Georgian National Energy and Water Supply Regulatory Commission of Georgia (hereinafter "**GNERC**" or "Commission").

Figure 2: Structure of the Georgian wholesale electricity market



Detailed information about electricity producers:

- At the end of 2024, 110 hydroelectric power plants, 5 TPPs and one wind power plant were operating in Georgia;
- In terms of tariff regulation, HPPs are divided into (1) regulatory, (2) partially deregulated, (3) deregulated, and (4) guaranteed capacity (TPPs ("TPP")):
 - Regulated and partially deregulated power plants** - all HPPs with a capacity of more than 65 MW built before August 2008, for which GNERC sets a fixed or upper marginal limit tariff and accordingly, the electricity generated by the plants is sold at a regulated (approved by GNERC) tariff;
 - Deregulated power plants** - power plants built after August 2008 (guaranteed capacity source TPPs). The mentioned power plants sell electricity at an unregulated price in the free market, except for the periods when they have a PPA, where the power plant generation is purchased by ESCO at a price following the terms of the PPA;
 - Guaranteed Capacity Source (TPPs)** – power plants defined as a source of the guaranteed capacity under the Georgian Government decree. GNERC approves the guaranteed capacity fee and the marginal (upper limit) tariff for electricity generation.
- Among the electricity producers, only Enguri and Vardnili HPPs are owned by the state and they are partially located in the occupied territory of Abkhazian Region. Gardabani 1 and Gardabani 2 TPPs are also owned by the state;

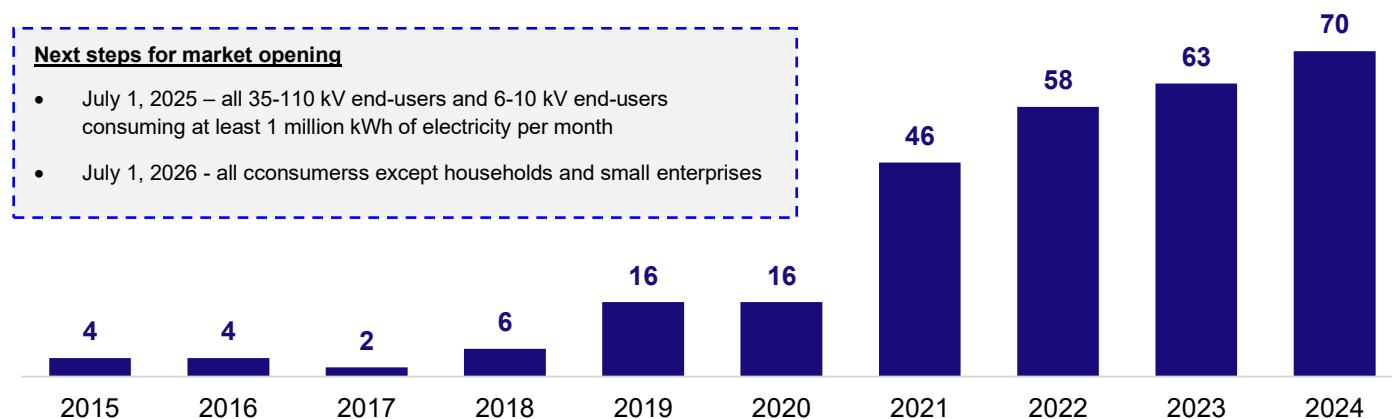
- It should be noted that power plants with an installed capacity of up to 15 MW (small capacity) have the right to start operating without a generation license.

Detailed information about electricity consumers:

On the electricity consumption side, the following participants are on the market:

- Direct consumers (private companies that meet the mandatory criteria defined by the Government and can buy electricity only on the wholesale power market) - the number of such consumers was 70 at the end of 2024 and is characterized by a significant growing trend (see the Chart 4). The increased number of direct consumers in the recent years is related to the "Electricity Market Model Concept" approved by the GoG, according to which certain types of large consumers are obliged to gradually enter the wholesale market. According to the new law, within the framework of the reform, the direct consumer status will be replaced by the large consumer status. Large consumers will be entitled to trade in the wholesale power market and will also have the right to trade in the retail power market and choose several suppliers. By periodically expanding the defining characteristics of a large customer, the number of end users who will have to enter the wholesale market will further increase. Finally, the process will be completed by July 1, 2026. The status and the criterion for the Large Consumers is defined under GNERC Resolution # 80 of December 28, 2020: "On determining the criteria and status of a large consumer of electricity"⁶.

Chart 3: Number of Direct Consumers⁷



Detailed information about Distribution System Operator:

In the wholesale power market, high and low voltage grid services is provided by the TSO and the DSO. TSO provides electricity transmission and dispatch throughout the country, while the DSO provides services for their own and third-party owned grid.

Detailed information about ESCO:

Wholesale market participants can trade with each other through bilateral agreements. Under the current market model conditions electricity surplus or deficit is filled through the market operator - ESCO, which acts as the so-called "Pool" and it performs the following actions for non-contracted electricity post-factum: (i) single purchase of electricity, (ii) calculation of weighted average price and (iii) subsequent automatic sale with the same weighted average tariff to customers who did not contract sufficient electricity to fill their supply needs. Approximately 85%⁸ of the total electricity supplied to the grid was sold through direct agreements in 2022, and the rest was traded through ESCO based on standard terms agreement⁹ approved by GNERC. Balancing electricity from ESCO is mainly purchased by distribution companies and direct consumers. Nowadays, ESCO balancing electricity weighted average price also represents a reference price for bilateral agreements, whereas electricity sale and purchase on ESCO represents so-called "put option" for the consumers and generation companies.

⁶ <https://matsne.gov.ge/ka/document/view/5069902?publication=0>

⁷ <https://esco.ge/ka/electricity/electricity-trade>

⁸ <https://esco.ge/ka/electricity/electricity-trade>

⁹ <https://esco.ge/ka/electricity/standard-provisions>

The functions of ESCO also include ensuring guaranteed capacity trading, for which the market operator buys power from guaranteed capacity sources (TPPs) and pays the guaranteed capacity fee. The guaranteed capacity paid by ESCO to the sources is in turn paid by distribution companies, direct consumers and exporters¹⁰.

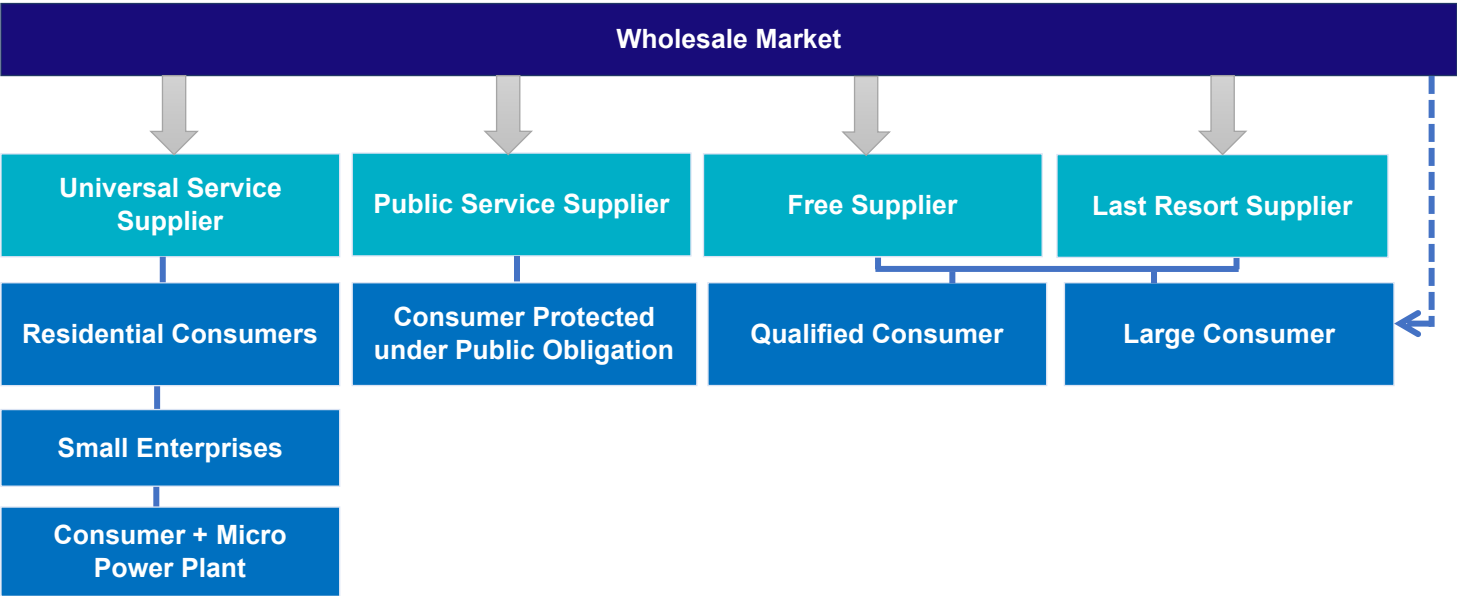
Detailed information about electricity supplier:

In the wholesale market from a consumption side, in addition to USS, PSO, and LRS, a free supplier is also authorized to buy electricity on the bilateral market. Despite the legal option for so-called Free suppliers to exist on the market, which would offer electricity to retail consumers at an alternative price, such companies still do not exist; therefore, consumers do not have a choice the retail supply segment. USS, PSO, and LRS are registered on the market that supply electricity to the retail market relevant segments under regulated conditions (including the tariff). The mentioned participants of the consumption side are formed due to the sector's reforms.

Retail Market Structure

Electricity supply to consumers in the retail market is carried out through a USS, a PSO supplier, and a LSR, whose functions in the Georgian market are carried out by “Tbilisi Electricity Supply Company” LLC (“Telmico”) and JSC “EP Georgia Supply”. “Telmico” and JSC “EP Georgia Supply” buy electricity on the wholesale market and deliver it to consumers in the consumption area: “Telmico” provides electricity supply throughout Tbilisi, while JSC “EP Georgia Supply” supplies the rest of the regions. “Telmico” and JSC “EP Georgia Supply” provide electricity to consumers at a fixed rate, which is approved by GNERC, according to the methodology of setting tariffs¹¹.

Figure 3: Georgian Retail Electricity Market Structure¹²

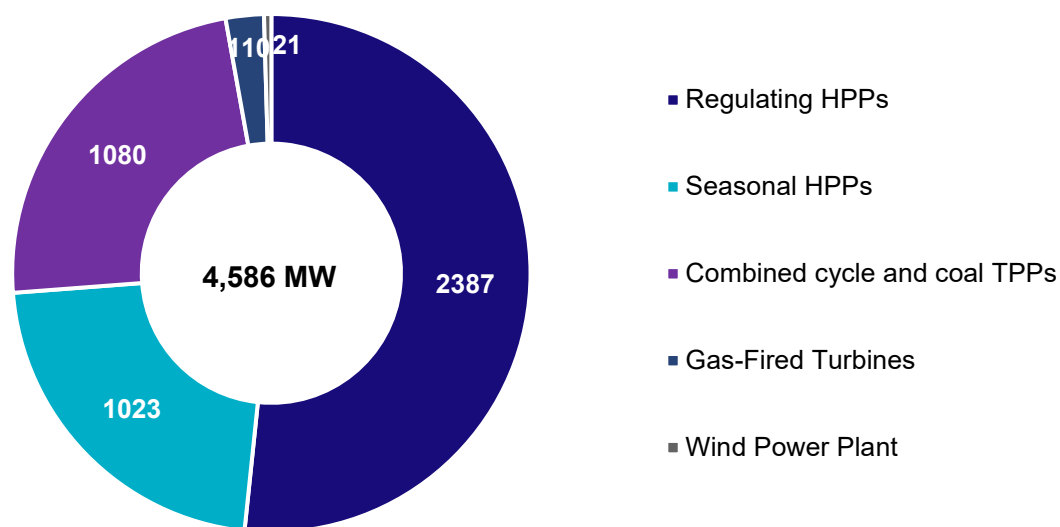


Electricity Demand-Supply Tendencies

As of 2024, the Georgian energy system installed capacity is 4,586 MW, whereas the installed capacities are distributed in the following way: regulatory HPPs - 2,387 MW, run-of-river HPPs (seasonal) – 10,23 MW, air turbine power plant - 110 MW, wind power plant - 21 MW, combined cycle and coal TPPs - 1080 MW (see Chart 5).

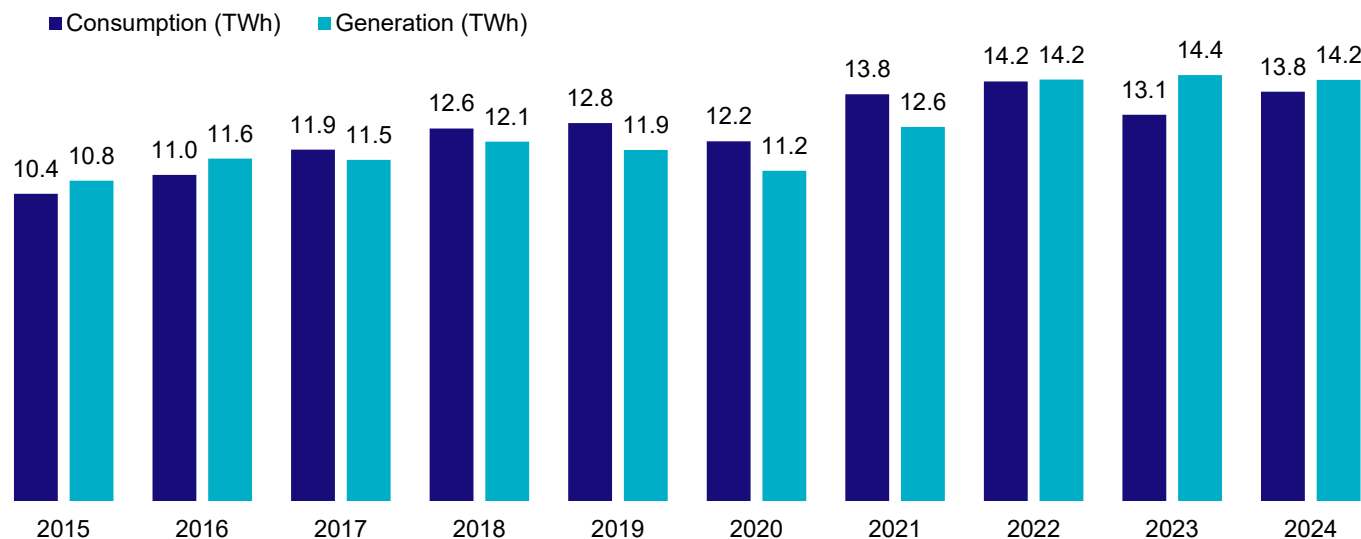
¹⁰ <https://esco.ge/ka/garantirebuli-simdzlavre>
¹¹ <https://matsne.gov.ge/ka/document/view/2436635?publication=10>
¹² <https://gnerc.org/ge/commission/commission-reports/tsliuri-angarishebi>

Chart 4: Installed Capacities of the Existing Georgian Power Plants (MWh)¹³



About 74% of the system's total installed capacity comes from HPPs. The share of regulatory HPPs is about 52% of the installed capacity. In 2024, electricity generation has increased by 31% compared to 2015 and consumption by 33%, which can be seen numerically on the Chart 6.

Chart 5: Electricity Generation-Consumption in Georgia (TWh)¹⁴

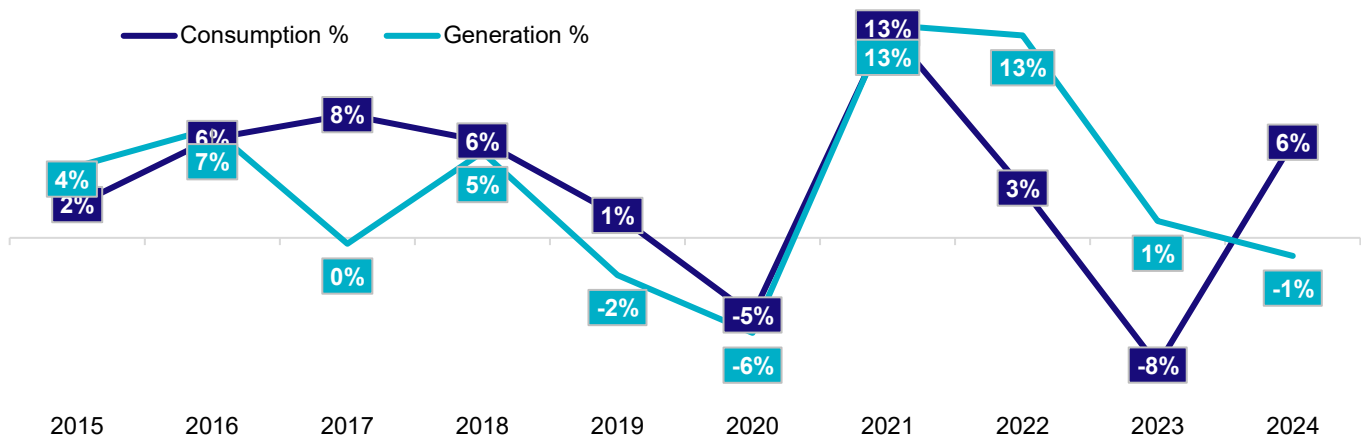


Based on data from 2015-2024, electricity production in Georgia is increasing by 3.4% on average annually, and the demand for electricity consumption by 3.3% (Chart 6).

Chart 6: Electricity Generation & Consumption Growth Rate (%)¹⁰

¹³ <https://www.gse.com.ge/komunikacia/publikaciebi/saqartvelos-gadamcemi-qselis-ganvitarebis-atwliani-gegma>

¹⁴ <https://www.gse.com.ge/momkhmareblebistvis/monatsemebi-elektroenergetikuli-sistemidan/faktiuri-balansi>



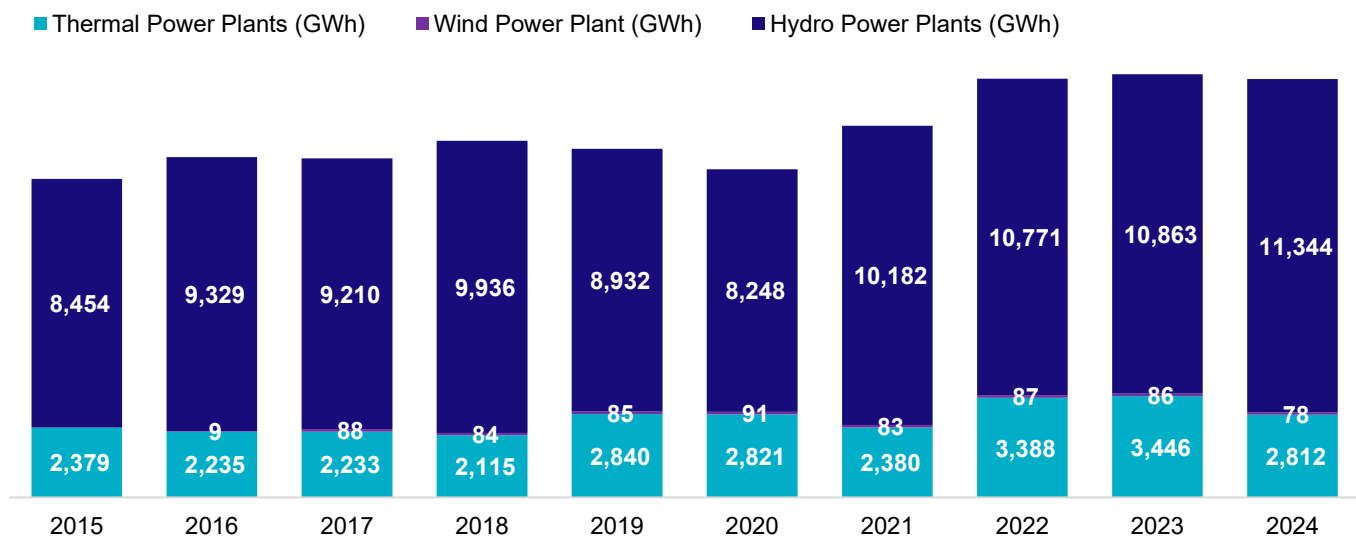
The difference between electricity production and consumption is increasing annually. This tendency has gradually increased since 2017 (Chart 7), which is due to (i), on the one hand, the higher growth rate of consumption compared to generation and (ii), and on the other hand, the lack of development of new energy generation sources in the country. In fact, since 2017, the annual balancing of supply and consumption in the country was executed by imports. An exception was the hydrologically abundant 2022 period, when HPPs had higher generation, and at the same time, TPPs worked at an increased rate. It should be noted that the TPPs operate on imported raw materials (natural gas), so the electricity supplied to the grid by the TPPs can be considered as imported electricity. In 2021, the gap between local generation and consumption peaked at 1,108 GWh. The gap was positive since 2022; however, it was mainly due to increased TPP generation.

The total electricity generation in 2024 was 14,234 GWh, with the largest share (around 80%) coming from HPPs.

In 2024, the electricity generated by **hydro power plants** amounted to 11,344 GWh, of which 50% (5,447 GWh) came from regulatory HPPs. Among them, 62% (3,401 GWh) of produced electricity was generated by Enguri HPP. The share of seasonal HPPs was about 41% and of small HPPs - 9%. In 2024, 4 small HPPs with a total installed capacity of 48.75 MW were put into operation.

TPPs generated 2,812 GWh of electricity in 2024, of which 83% (2,331 GWh) came from Gardabani Thermal Plant 1 and Gardabani Thermal Plant 2. The annual output of the Kartli wind power plant was 77.6 GWh, a share of which was only 0.5% of Georgia's domestic electricity production (see Chart 8).

Chart 7: Electricity Generation by Sources (GWh)¹⁰

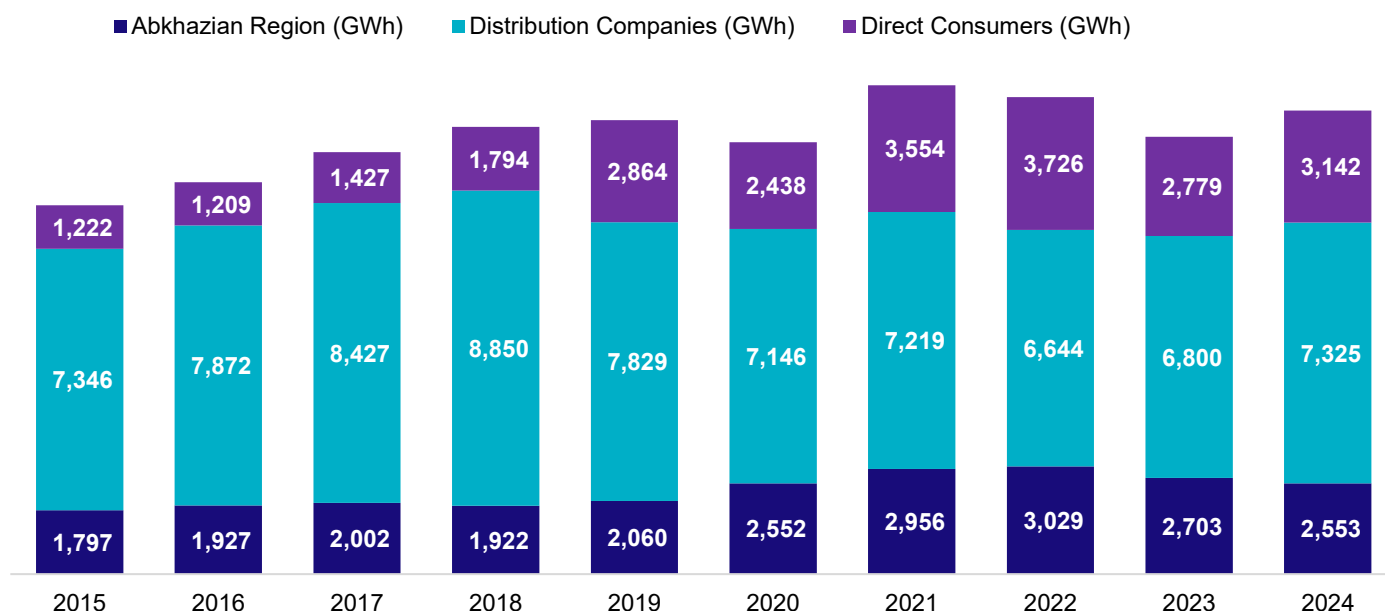


Since 2010, electricity consumption has been continuously increasing. The exception was 2020, when consumption decreased by 4.8% compared to 2019 due to the reduction in economic activity caused by the COVID-19 pandemic. In 2021, consumption increased again by 13%, surpassing the pre-pandemic 2019 consumption level by 7.6%. According to the Ten-Year Network Development Plan ("TYNDP") of Georgia, the increase in electricity consumption will continue every year, and by 2034, it is expected to reach 19 TWh¹⁵.

Electricity demand is increasing for all segments. Abkhazian Region's consumption increased 2.5 times from 2015 to 2024. In the case of direct consumers, the increase was mainly due to legislative changes, as a result of which, some large consumers were forced to move from the service area of electricity distribution companies and join the wholesale market as independent qualified enterprises. The Chart 9 shows consumption three main segments:

- "Distribution Companies" (including "EP Georgia Supply" and "Telmico" as a company with Universal Service and Public Service Supplier status)
- Abkhazian Region, and
- Direct Consumers.

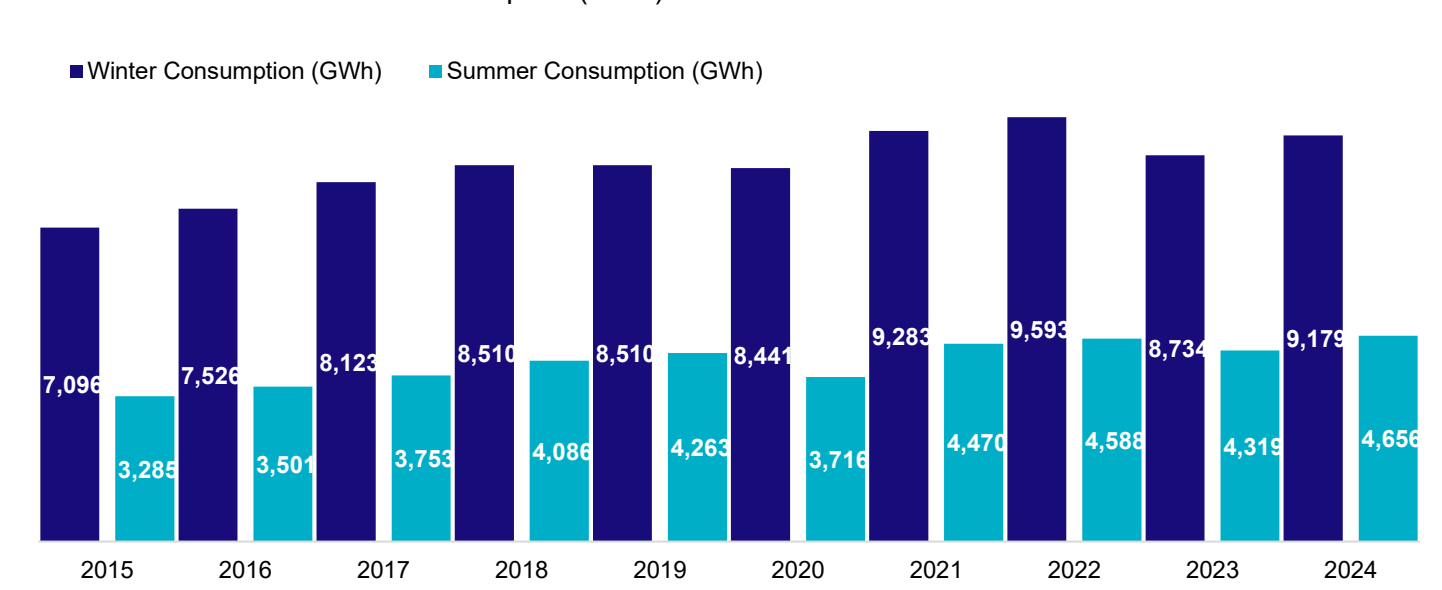
Chart 8: Electricity Consumption (GWh)¹⁷



According to the annual data analysis, electricity consumption is becoming less seasonal (Chart 10). This is mainly due to the increased tourist inflow and the increased use of air conditioning systems in the summer months. The average increase in winter months (September-April) consumption over the last 10 years averages 3%, while the increase in consumption in the summer months (May-August) averages 4%.

¹⁵ <https://www.gse.com.ge/komunikacia/publikaciebi/saqartvelos-gadamcemi-qselis-ganvitarebis-atwliani-gegma>

Chart 9: Winter and Summer Consumption (GWh)¹⁶



Considering the Georgian hydrological regime, about 40% of the generation is distributed over the summer. Consequently, there is an opportunity to reduce the need for imports during the non-winter period and, therefore, to make optimal use of local production.

The high concentration of production during the summer season creates a need for imports during the rest of the year. The tendency of seasonality is especially a characteristic of such HPPs, which do not have a water storage reservoir.

Electricity Export-Import

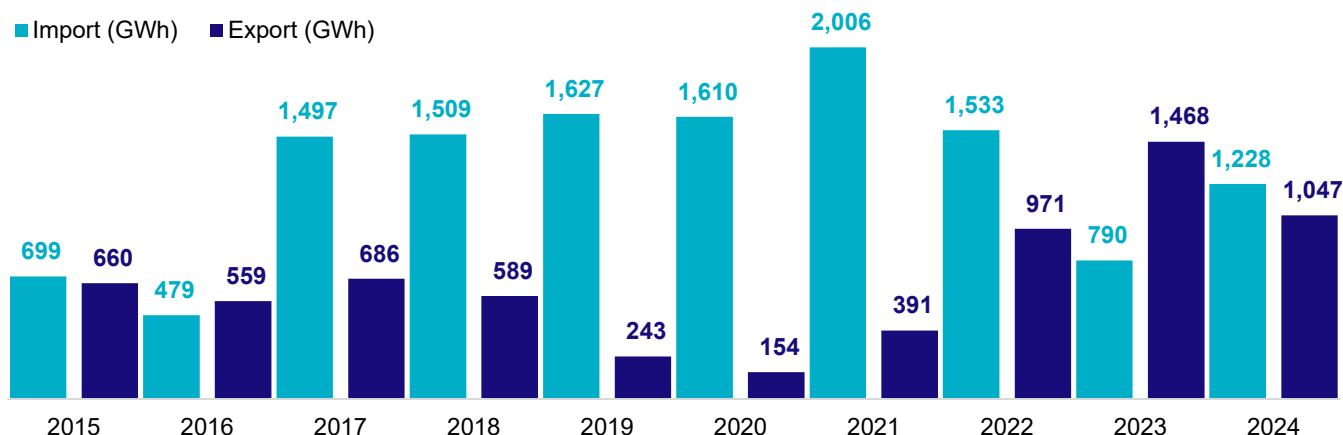
Insufficient generation in the winter and excess supply in the summer period lead to electricity export and import necessity in Georgia. In addition, imports may be necessary in many cases due to technical needs. Electricity is exchanged from Georgia to Russia, Turkey, Azerbaijan, Armenia, and vice versa. Also, transit from Russia to Turkey, Russia to Armenia, and Azerbaijan to Turkey is carried out through Georgia. The electricity flow in the direction of each country is limited depending on the permissible operational parameters of the country's energy system.

In 2024, compared to 2015, electricity imports almost doubled (Chart 11). Among them, a large share of imports was to ensure supplies for the Abkhazian Region during the winter. In 2015, the share of imports in electricity consumption was 7%; in 2021, it reached a maximum of 9% (1,228 GWh).

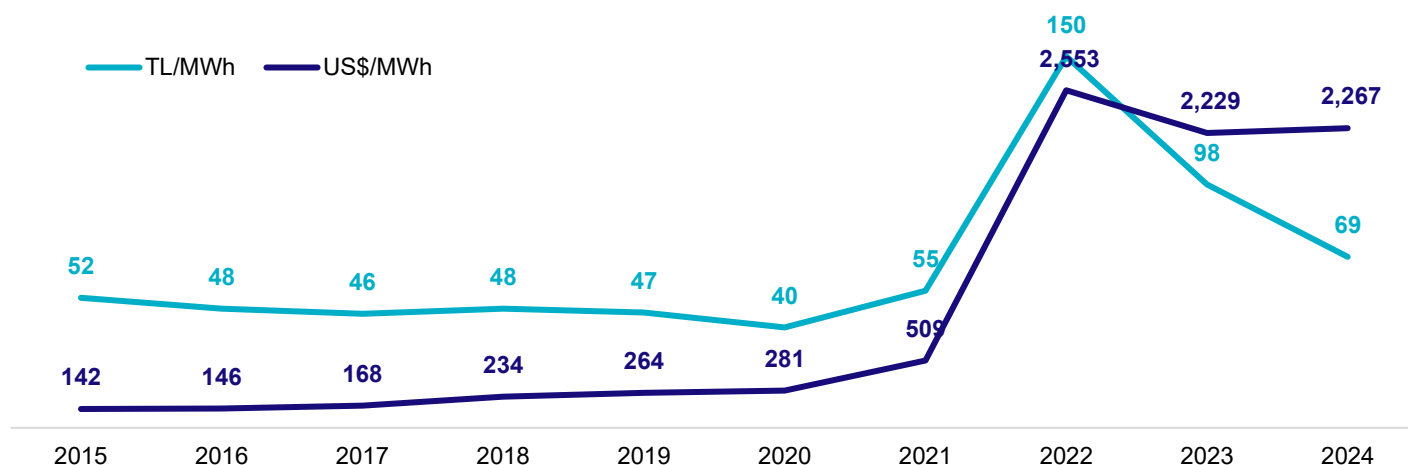
In the case of exports, in 2024, compared to 2015, the flow increased by 58% (Chart 11). During 2015-2024, the export volume was at a record high in 2023 (1,468 GWh), which was mainly due to (i) high precipitation/hydrology during summer and (ii) significantly increased electricity prices globally, especially in the Republic of Türkiye. In 2024, among the total of 1,047 GWh electricity, 83% was exported to Türkiye, 13% to Armenia and 4% to Azerbaijan.

The low rate of development of local energy sources causes need for electricity import. The country indeed has thermal capacities, which are used as a source of the country's guaranteed capacity (reserve). Still, the TPPs work on imported raw materials, which cannot ensure the country's generation adequacy and cannot guarantee country's energy security in the long term.

¹⁶ <https://data.gnerc.org/>

Chart 10: Electricity Export & Import Volumes (GWh)¹⁶

In connection with export, it is necessary to consider the abundance of local resources, the market situation in the neighbouring country, and electricity tariffs, which signal export viability. The significantly increased electricity exports to Türkiye in recent years were due to the high prices recorded in the market over the last decade. In 2022, the average annual DAM price of electricity in Turkey reach its maximum record of 150 US\$/MWh (2,553 TL/MWh), while even compared to 2022 in Georgia, the price in US\$ was almost three times lower¹⁷.

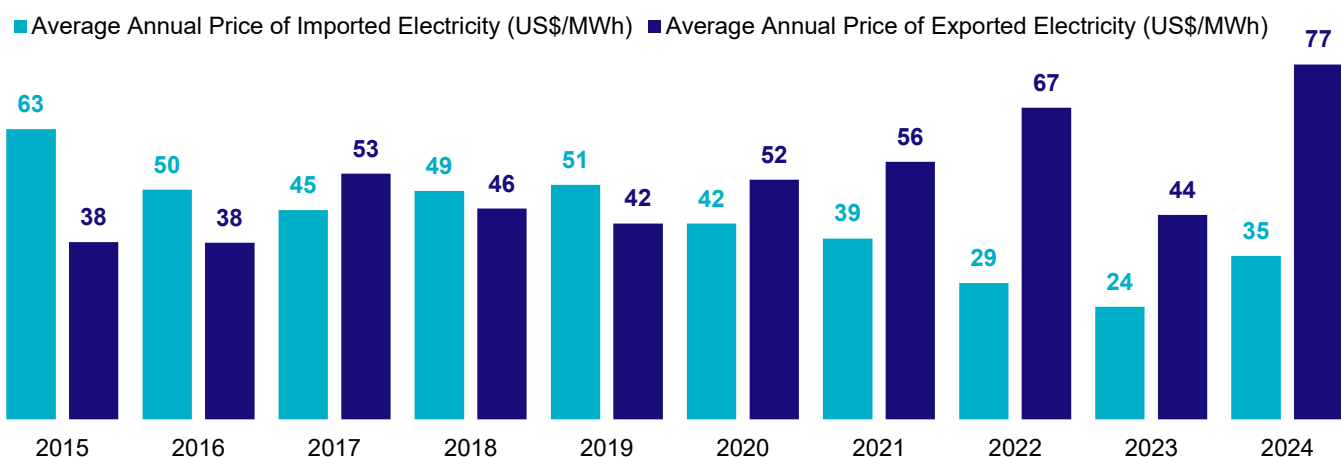
Chart 11: Average Monthly Turkish DAM Prices¹⁷

Historically, Georgia was dependent on electricity imports from Russia. Among them, the volume of imported electricity, at a special price for the Abkhazian Region has increased in recent years, significantly reducing the average annual price of imports. The average annual (all neighbouring countries) electricity import price in 2015 reached a record high of 67 USD/MWh, and the export price in 2024 was 77 USD/MWh, almost two times higher than in 2015 - the existing record indicator.

Chart 12: Average Annual Prices of Imported and Exported Electricity¹⁸

¹⁷<https://rapor.epias.com.tr/rapor/xhtml/ptfSmfDonemlik.xhtml>

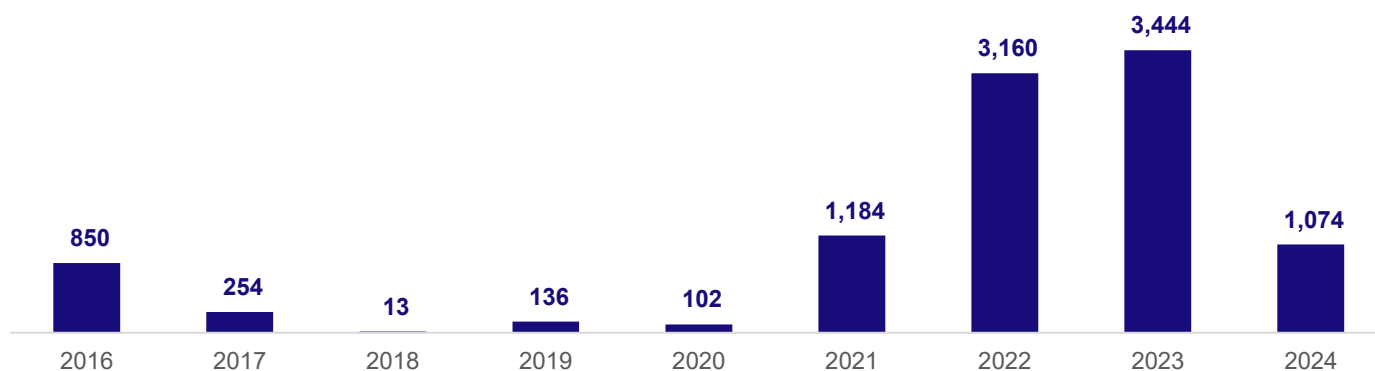
¹⁸<http://ex-trade.geostat.ge/ka;https://www.gse.com.ge/momkhmareblebistvis/monatsemebi-elektroenergetikuli-sistemidan/faktiuri-balansi>



As mentioned above, the low price of imported electricity from Russia is due to the Abkhazian Region supply, although the price is relatively high in non-deficit months.

Electricity transit has been activated since 2016, and in 2023, a record 3,444 MWh of electricity was transited through Georgia. In 2024, transit was carried out from Azerbaijan to Turkey and from Russia to Turkey.

Chart 13: Electricity Transit from Georgia (GW)



According to the TYNDP of Georgia, for 2024-2034 Georgia will play an essential role in solving the energy integration tasks planned in the Caucasus (Black Sea basin) region due to its geographical location. This implies the exchange of electricity between these countries and the utilization and use of Georgia's hydropower resources. In addition, it is planned that by 2034, the interconnection lines of the Georgian grid with the neighbouring energy systems will be significantly strengthened. The possibility of exchange with Turkey will increase to 1,050 MW, with Russia – to 1,600 MW, with Armenia – to 700 MW. It will be possible to exchange 2,000 MW with Azerbaijan from 2023. It should be noted here that the project of the Black Sea submarine cable, the feasibility study of which is currently underway, will connect the Georgia energy system with the Central European synchronous zone.

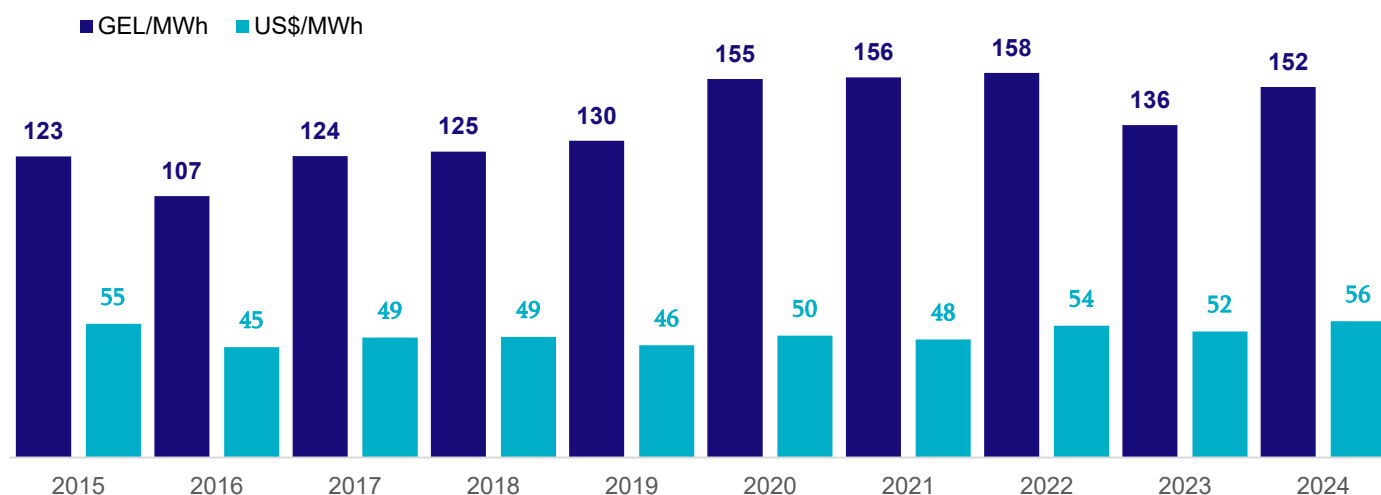
Electricity Wholesale and Retail Tariffs

Balancing electricity weighted average price is increasing every year in local currency, and in 2024, it was 23% higher compared to 2015 (Chart16). Every month, ESCO calculates the price of balancing electricity based on the principle of the weighted average of electricity prices purchased from different categories of generation

companies and importers. The main buyers of balancing electricity are distribution companies and direct consumers.

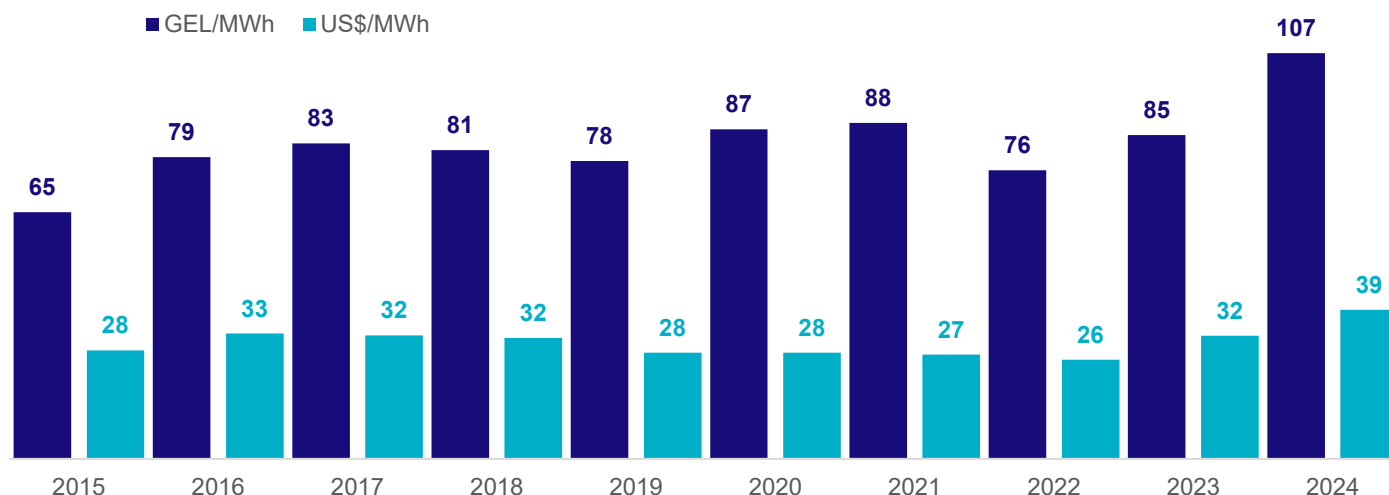
Due to the fluctuating exchange rate and the devaluation of the national currency against the US\$ in the last decade, the balancing electricity price in US\$ did not increase in the same proportion as in the Georgian Lari.

Chart 14: Balancing Electricity Weighted Average Price¹⁹



For deregulated power plants (small HPPs, newly built power plants), without having a direct agreement on electricity sales, ESCO offers a purchase tariff for the electricity they have generated and transmitted to the grid, which (a) in the summer months (May-August) is defined as the tariff of those HPPs with a regulated fixed tariff, which has the lowest tariff set by GNERC, and (b) during the winter (September-April) - the price highest tariff of the guaranteed power source (TPP), which the commission has determined as the highest tariff. This approach varied over the years and depended mainly on the rates set by GNERC. It should be noted that the average balancing electricity price of deregulated power plants was increasing in national currency (Chart 17) and was constantly decreasing in terms of US\$, however since 2023 it started to increase. In 2024, the price was 107 GEL/MW (39 US\$/MWh).

Chart 15: Average Balancing Electricity Price of the Deregulated Power Plants



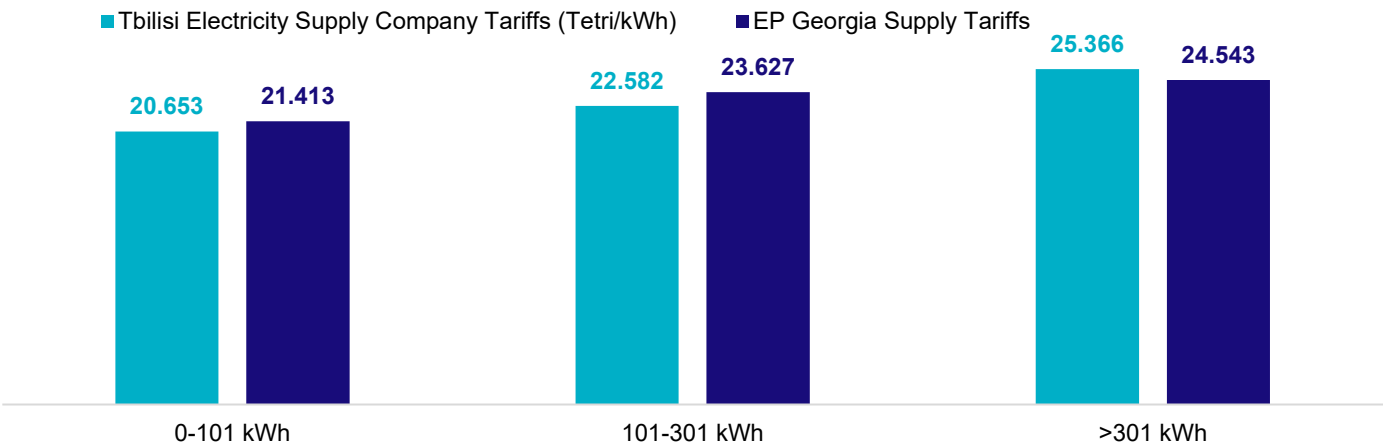
¹⁹ <https://data.gnerc.org/>; <https://esco.ge/ka/electricity/balancing-electricity-price>

Retail market consumer tariffs for electricity are regulated, and according to the tariff methodology, they must be revised every five years. However, companies can apply to the Commission for their revision during a year.

Tariffs for household users are divided based on consumption level, ensuring energy-efficient electricity use. The prices for non-household users are determined according to the voltage levels.

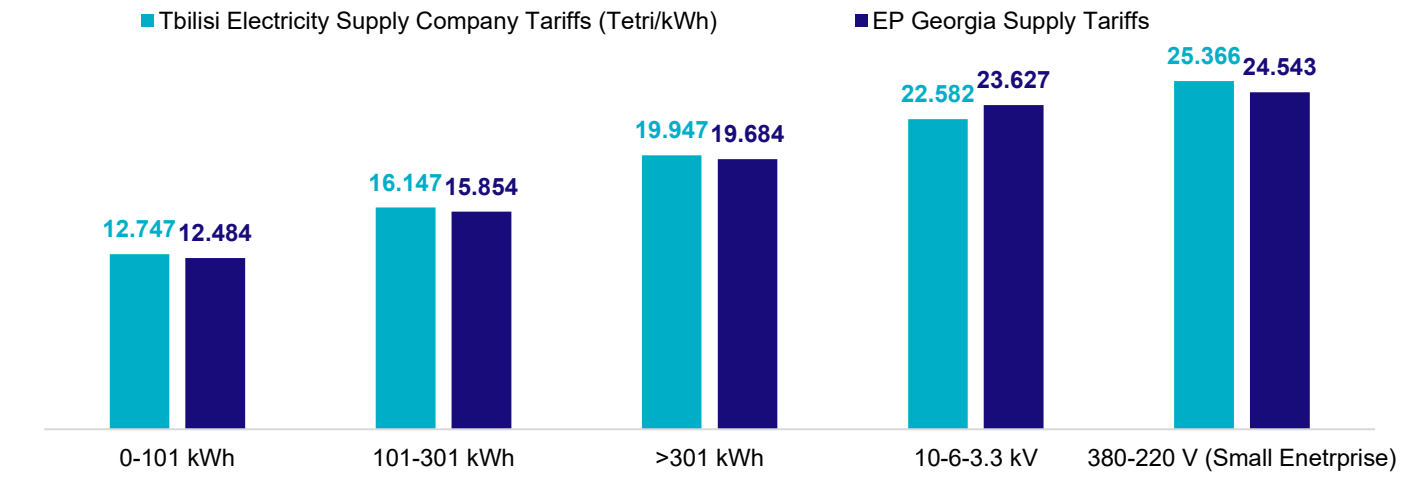
According to the latest data, for “Telmico” (Tbilisi region), in case of electricity consumption up to 101 kWh per month, the tariff for 1 kWh is 20.653 tetri/kWh (excluding VAT), in case of consumption of 101-301 kWh – 22.582 tetri/kWh, in case of more than 301 kWh consumption it is 25.366 tetri/kWh (Chart 18). “EP Georgia Supply” (remaining regions of Georgia, except Tbilisi) tariffs according to the consumption level are as follows: 21.413, 23.627, 24.543 tetri/kWh.

Chart 16: Non-Household Electricity Tariffs by Consumption Level without VAT (Public Service Obligation)²⁰



Non-household user’s electricity tariff is higher than for household users (Chart 19).

Chart 17: Household Electricity Tariffs by Voltage Level and Consumption level without VAT (Universal Service Supplier)²⁰



²⁰ <https://gnerc.org/tariffs/tariffs2>

Renewable Energy Development Support

Since 2008, the GoG has developed a policy to support the use of renewable energy, resulting in the growing development of projects in the country. Since 2008, more than 300 Memorandums of Understanding have been signed between the GoG and private investors, and all projects that have been commissioned so far are the result of project development support. Support mechanisms changed from time to time, whereas the following stages can be distinguished:

- From 2008 to 2013: Resolution # 107 of the GoG dated April 19, 2008, “State Program Renewable Energy 2008 on the approval of the rules for ensuring the construction of new sources of renewable energy in Georgia”;
- From 2013 to 2018:
 - Resolution # 214 of the GoG dated August 21, 2013, “On the approval of the procedure for expression of interests regarding the feasibility study, construction, ownership, and operation of power plants in Georgia”²¹;
 - Resolution # 40 of the GoG dated April 10, 2014, “On approval of the rules and conditions for submission and consideration of proposals for the construction, ownership, and operation of power plants that are not included in the list of potential power plants to be built in Georgia”²².
- From 2018 to date:
 - Law of Georgia “On Public and Private Partnership” of May 4, 2018²³;
 - Resolution # 515 of the GoG of October 31, 2018, “On approval of the rules and conditions for submission and review of proposals for the feasibility study, construction, ownership and operation of power plants that do not represent a public-private partnership project”²⁴;
 - Resolution # 403 of the GoG dated July 2, 2020, “On approval of the support scheme for the production and use of energy from renewable sources”²⁵;
 - Resolution # 556 of the GoG of December 7, 2022, “On approval of the support scheme for production and use of energy from renewable sources and development of auction rules”²⁶.

In order to attract investments in renewable energy projects, the GoG signed a guaranteed purchase agreements (“PPA”) within the framework of existing incentive mechanisms until 2018, based on signed Memorandum of Understandings with the investor. It is a long-term contract in which the GoG buys electricity from the power plants at a specific price in certain months. The term of PPA agreements signed in the last period were mainly determined for ten years, for eight months of winter (September-April). However, the PPA term was comparatively longer, especially for large power plant projects. Prices were fixed in US\$, ranging from 2.5 US\$ cents/kWh to 6 US\$ cents/kWh. The approach was different in the case of large HPPs (for example, Khudoni, Nenskra, Namakhvani), where higher prices were determined and subject to annual escalation.

The government's approach to PPAs has changed since 2017. Despite the successful development of projects in the energy sector, PPAs were seen as a limiting factor for competitive markets. In a published document²⁷, the International Monetary Fund expressed its displeasure with the PPA practice because it created contingent liability and fiscal risks for the government. The mentioned circumstances led to the de-facto moratorium of PPAs in 2017. Finally, in 2018, a new law on “Public-Private Partnership” (“PPP”) tightened the procedures for granting PPAs. As a result, as far as the Company is aware, no such memorandum was signed during 2017-2022, which provided guaranteed power purchase conditions.

²¹<https://matsne.gov.ge/ka/document/view/1994313?publication=0>

²² <https://matsne.gov.ge/ka/document/view/2278352?publication=0>

²³ <https://www.matsne.gov.ge/ka/document/view/4193442?publication=3>

²⁴ <https://matsne.gov.ge/ka/document/view/4356735?publication=0>

²⁵ <https://matsne.gov.ge/ka/document/view/4914589?publication=0>

²⁶ <https://www.matsne.gov.ge/ka/document/view/5636966?publication=0>

²⁷ <https://www.imf.org/en/Publications/CR/Issues/2021/04/16/Georgia-Eighth-Review-Under-the-Extended-Fund-Facility-Arrangement-Press-Release-and-Staff-50358>

In 2018, the Parliament of Georgia adopted the Law on “Public-Private Partnership”, which establishes the legal basis of public and private cooperation, the principles, rules, and procedures related to the development and implementation of the project, the relevant institutional system, etc. However, the process for selecting a private party in a public-private partnership project, established by Law, significantly differs from the previously applicable rules in the electricity sector and contains much more bureaucracy. Nevertheless, many renewable energy (solar, wind, and hydro) projects are being developed within the PPP Law framework²⁸.

Based on the Law of Georgia about "Support Scheme for the Production and Use of Energy from Renewable Sources,"²⁹ in 2020, the government introduced a new support mechanism called "Feed-in Premium - FiP" as a support scheme for the power plants that will trade on the DAM after the reforms. The FiP scheme applied only to renewable energy projects with an installed capacity of more than 5 MW. The FiP support term was defined for ten years (counting from the start of commercial operation of the power plant), during eight months (September-April) of each year. The FiP scheme had to be operated by ESCO (as a liability of the Wholesale Public Service Organisation ("WPSO")). This support scheme ensured market risks for renewable energy power plants by offering a premium tariff that can be expressed as follows: if, during any trading hour for the support period, the market price was less than US\$ 5.5 cent/kWh, ESCO would cover the difference to the support scheme beneficiary with the price of difference between the DAM price and US\$ 5.5 cent/kWh, but not more than US\$ 1.5 cent/kWh. Investors can no longer benefit from the FiP support mechanism, as this support scheme has been replaced by a renewed one (the so-called Contract for Difference - "CfD"). The FiP support mechanism only applied to projects that signed MoUs after June 2020, although investor interest in the new tool was very low.

In December 2022, the GoG adopted a resolution "On the approval of the support scheme for the production and use of energy from renewable sources and the capacity auction rules," based on which the government launched a new support scheme. The main prerequisite for using the new support scheme is participating and winning in the capacity auction (an auction announced for utilizing the installed capacity determined by the GoG through renewable energy sources). The basic principle of selecting investors and allocating the declared capacities in the auction process is that, the lowest price bids will fill the declared capacities first. On February 10, 2023, the first capacity auction was announced, which included the following categories:

- Hydro power plants (run-of-river) - 150 MW;
- Wind power plants - 70 MW;
- Solar power plants - 70 MW;
- Power plants working on other renewable energy sources - 10 MW.

According to the results of the auction, the maximum price for HPPs was set at US\$ 6.85 cent/kWh (the minimum price was US\$ 5.9 cent/kWh), for wind power plants - US\$ 6 cents/kWh (minimum - US\$ 5.78 cents/kWh) and for solar power plants US\$ 5.9 cent/kWh (minimum - 5.3 US cents/kWh)³⁰.

As a result of the capacity auction, the winning companies will sign a feasibility stage agreement at the first stage with the GoG. If the conditions stipulated in the feasibility agreement are fulfilled, ESCO will sign a CfD contract with the auction winner. The support period under the CfD scheme covers eight, nine, or 12 months annually for 15 years after the power plant is commissioned, depending on the power plant's renewable energy source for generation. In particular, the CfD support period within the year is eight months for HPPs, nine months for wind power plants, and 12 months for solar and other renewable energy power plants. Based on CfD agreements, ESCO will compensate the power plant the negative difference between the DAM price and the auction price. If the DAM price is higher than the auction price, the power plant must compensate the difference to ESCO. Every five years, the companies will be able to withdraw from the mentioned agreement and will be able to sell electricity in any market. However, to benefit from CfD for the projects based on the capacity auction results, it is necessary to complete the process of reforms of the electricity market of Georgia and launch the organized markets.

²⁸ <https://ppp.gov.ge/project/>

²⁹ <https://matsne.gov.ge/ka/document/view/4737753?publication=1>

³⁰ <https://www.economy.ge/?page=news&nw=2229>

In 2023, Georgia held its second renewable energy capacity auction, offering 800 MW for development. The event garnered strong interest, with 147 proposed projects totalling approximately 1,915.76 MW. The median tariffs for different types of power plants were set as follows³¹:

- Run-of-river hydropower: 100 MW allocated at 65 US\$/MWh.
- Reservoir-based hydropower:
 - Storage capacity of 1-4 hours: 50 MW at 75 US\$/MWh.
 - Storage capacity of 4-8 hours: 100 MW at 77.4 US\$/MWh.
 - Storage exceeding 8 hours: 150 MW at 103.5 US\$/MWh.
- Wind power: 125 MW at 60 US\$/MWh.
- Wind with storage: 70 MW at 86 US\$/MWh.
- Solar power: 125 MW at 56 US\$/MWh.
- Solar with storage: 70 MW at 63.9 US\$/MWh.
- Other renewable sources: 10 MW at 153.5 US\$/MWh.

As a result of this auction, 27 companies secured project approvals, committing to initiatives that would collectively add more than 165 MW of installed capacity. The anticipated investment for these projects is around US\$ 225 million, covering two wind farms, a solar power plant, and seven hydropower facilities.

On June 17, 2024, the Georgian government amended Resolution #556, refining the Support Scheme for Renewable Energy Production and revising Capacity Auction Rules. The scheme now applies to energy projects, including those outside public-private partnerships, and extends to ongoing developments that were in the feasibility study phase at the time of enactment. However, projects already under construction are excluded. Under this framework, power plants exceeding 0.5 MW in capacity benefit from a CfD agreement between the capacity auction winner (or a directly selected entity) and ESCO.

The amendments also introduced a dual selection approach: competitive capacity auctions and direct selection by the Ministry of Economy and Sustainable Development (MoESD). This adjustment aims to expedite approvals and improve efficiency. Once government approval is granted, a Technical-Economic Feasibility Agreement is signed, defining conditions for executing a CfD, followed by an Implementation Agreement formalizing project requirements.

To further streamline project initiation, the government simplified the review process. Developers can now secure a Memorandum of Understanding (MoU) with the government, eliminating the requirement to participate in an auction. The median tariffs from the second auction serve as reference prices for these MoUs. On August 23, 2024, the Ministry announced a direct selection process for beneficiaries, setting fixed tariffs at 65 US\$/MWh for hydropower, 60 US\$/MWh for wind, and 56 US\$/MWh for solar energy. Applications opened on September 2, 2024, initially set to close on December 31, 2024, but later extended until February 28, 2025³².

³¹ <https://www.economy.ge/?page=news&nw=2457>

³² <https://www.economy.ge/?page=economy&s=201&lang=ge>

Regulatory Environment

Electricity Sector Basic Rules and Regulations

The electricity sector is regulated by laws adopted by the Parliament of Georgia and secondary legislation comprising various normative acts. For example, such normative acts are Government resolutions, orders of the Ministry of Economy and Sustainable Development of Georgia (hereinafter referred to as "**Ministry of Economy**" or "**MoESD**"), and resolutions of GNERC. The primary law that determines the basic principles of market operation is the Georgian Law on "Energy and Water Supply" (hereinafter "**Law on Energy**"). The Parliament of Georgia approved the abovementioned Law in December 2019, replacing the existing Law of Georgia on "Electricity and Natural Gas" that had been in effect for years. The Energy Law defines the current and future structure of the market, describes the planned reforms, and defines the timeframe for the adoption of secondary legislation and the persons responsible for its adoption.

The energy sector policy, the target indicators, and the ways of their achievement are determined by the Ministry of Economy - the main body implementing the state policy in the energy field. It is responsible for developing the national energy policy (in cooperation with the Government, GNERC, and other relevant parties) and ensuring its implementation, the security of electricity and natural gas supply, creating a competitive environment through effective market regulation, participating in the approval of strategic projects, etc. MoESD also approves various strategic development plans, such as the TYNDP³³ (subject to Government approval), Annual Electricity (Capacity) Balance, and other strategic documents.

The Government decrees (e.g., the "Electricity Market Model" adopted on April 16, 2020) defines the electricity market target model and the guiding principles of its organization and operation, while the criteria for participation in various market segments under the conditions of the target model and the principles of regulation are defined in the market rules approved by GNERC. The Government also approves the National Renewable Energy Action Plan, which sets overall national targets for the share of energy from renewable sources and implements various actions to achieve them. In addition, according to the Law of Georgia on the "Promoting Generation and Consumption of Energy from Renewable Sources"³⁴ (hereinafter referred to as the "**Renewable Energy Promotion Law**"), to achieve the national target indicators, the GoG is authorized, among other measures, to implement support schemes defined under the Renewable Energy Promotion Law.

GNERC is an independent regulatory body of the sector, which develops market operation rules, sets tariffs for energy companies subject to tariff/price regulation, and approves investment plans for regulated market participants. GNERC establishes the rules of technical operation of the electricity, natural gas, and water supply sectors - the same as network rules; authorizes and supervises regulated activities in the energy and water supply sectors and issues various regulatory legal acts for this purpose; Settles disputes between energy companies, determines quality standards for distribution and supply of electricity, water supply and natural gas and supervises their implementation and performs other functions provided for by law. GNERC acts as an intermediary between distribution companies, consumers, and suppliers. The Commission consists of five members (the chairman and four members), whom the Parliament of Georgia elects for six year term. GNERC is not subject to direct supervision by other state bodies but is accountable to the Parliament of Georgia. GNERC's independence is guaranteed legally and has its own revenue stream. GNERC's budget is financed mainly from the regulation fee paid monthly by regulated energy market participants, the amount of which is determined by the Commission (from January of the current year, the regulation fee to be paid by enterprises is defined in the amount of 0.3% of the income received during the reporting month). This funding source ensures that GNERC does not depend on subsidies from the state budget. This contributes to its credibility as an independent regulatory body. Such independence is a crucial requirement for synchronization in the EU energy market and is reflected in the best practices of energy market regulation. All GNERC procedures, including licensing conditions and established tariffs/fees for regulated enterprises are subject to tariff/price regulation and

³³ <https://www.gse.com.ge/proektebi/sakartvelos-gadamcemi-qselis-ganvitarebis-antsliani-gegma>

³⁴ <https://www.matsne.gov.ge/ka/document/view/4737753?publication=1>

their calculation methodology, are predetermined by the Commission orders/decrees and are publicly available for transparency, consistency, and reliability.

Table 4: The Main Legislative and Sub-legal Documents that Determine the Current and Future Structure of the Electricity Market

Document Name	Approval Body	Approval Date	Document Number
Georgian Law on Energy and Water Supply	Georgian Parliament	20 /12 /2019	5646 – rs
Support Scheme for the Production and Use of Energy from Renewable Sources	Georgian Government	02/07/2020	Decree N403
Renewable Energy Generation and Consumption Support Scheme and Capacity Auction Rules	Georgian Government	07/12/2022	Decree N556
Promoting Generation and Consumption of Energy from Renewable Sources	Georgian Government	20 /12/2019	5652 –rs
Georgian Law on Licenses and allowances and Permits	Georgian Government	24/06/2005	1775
Electricity Market Model Concept	Georgian Government	16/04/2020	Decree N246
Electricity Market Rules a) Day Ahead and Intra Day Market Rules b) Electricity Balancing and Ancillary Service Market Rules c) Bilateral Agreements Market Rules	GNERC	11/08/2020	Decree N46
Electricity Retail Market Rules	GNERC	13/08/2020	Decree N47
Electricity (Capacity) Market Rules	Ministry of Energy of Georgia	30/08/2006	Order N77
Licensing Rules and Rules on Notification about Energy Activities	GNERC	27/05/2020	Decree N22
Methodologies for Calculating Tariffs and Fees in the Electricity Sector	GNERC	15/12/2020	Decree N68
GNERC resolution on Electricity Tariffs, approved for the following tariffs and consecutive tariff periods: a) Electricity generation (capacity) tariffs, b) Electricity transmission, and Electricity Commercial Operator service tariffs c) Electricity wheeling and distribution tariffs d) Electricity end-user marginal tariffs	GNERC	04/12/2008	Decree N33
Grid Code	GNERC	17/04/2014	Decree N10
Electricity Distribution Grid Code	GNERC	28/06/2021	Decree N19
Electricity Market Monitoring and Reporting Rules	GNERC	30/03/2021	Decree N7
Transitional Measures to be Implemented in the Electricity Sector	GNERC	12/11/2020	Decree N58

Governing Body and Management

A brief description of the corporate governance standard in the Company

Pursuant to the Law of Georgian on Entrepreneurs, dated 2 August 2021 (hereinafter “**Law on Entrepreneurs**”) and the Company's charter, the control and management of the Company is separated among the shareholders' meeting, the Supervisory Board and the General Director. The latter is in charge of the day-to-day management and representation of the Company.

A three-level system of corporate management has been established in the Company. In particular, the highest management body is the general meeting of the Company and the day-to-day management of the Company is carried out by the General Director of the Company, who in turn is accountable to the Supervisory Board and subordinate to it. In addition, in the charter of the Company the powers of all three links of corporate management are strictly separated.

- **General Meeting (General Meeting of the Shareholders)** makes decisions on principle issues, such as: changing the charter of the Company, liquidation of the Company, distribution of dividends, deciding on the reorganization of the Company, etc.;
- **Supervisory Board** supervises the activities of the management much more closely and a number of transactions and deals require its approval, for example: convening a general meeting of shareholders, appointing or dismissing the general director and controlling their activities, approving the annual business plan and budget, continuation of any loan/debt or financial obligation by the Company Continuation or guarantee with respect to any third party, etc.;
- **Director** is directly involved in managing the daily activities of the Company, such as: representing the Company and signing contracts on its behalf, opening and closing bank accounts, hiring employees, etc.

The meeting of shareholders of the Company, the supervisory board, the general director, the group of managers subordinate to the general director and other boards/committees in the Company determine, monitor and maintain the parameters and standards according to which the Company should operate.

Corporate management processes in the Company are regulated by various internal policies, such as: authority matrix, code of conduct, contract standards and management procedure, etc. In addition to the above, the company has an audit committee.

General Meeting (General Meeting of the Shareholders)

The general meeting is convened at least once a year, by the Supervisory Board, upon the request of the General Director or the shareholder. Each shareholder has the right to request to include an additional item in the agenda no later than 3 (three) days before the general meeting.

The general meeting is considered to have decision-making capacity only if it is attended or represented by shareholders who have a total of 100% share in the capital.

According to the Law on Entrepreneurs and the charter of the Company, the shareholders are authorized to make decisions at the meeting of shareholders on the following matters, among other things:

- (a) The general meeting is authorized to make decisions on the listed issues with the joint consent of all shareholders:
- Change of Company charter;
 - Company liquidation;
 - Approving the purchase of all or substantially all property or shares (stocks) of other company by the Company or the agreement related to it;

- Approving any increase in the authorized capital of the Company (other than that required for (i) the completion of the Lakhami Project, as determined within reasonable limits by the shareholders holding more than 50 (fifty) percent of the Company's shares or (ii) restructuring);

(b) Majority of the votes of the present shareholders is required to make decisions on the listed issues:

- Approval of the annual accounts of the Company;
- Change in the authorized capital of the Company;
- Request for contributions to the authorized capital for shareholders;
- Determination of deadlines for implementation of additional contributions by shareholders;
- Distribution or payment of profit dividends or otherwise by the Company;
- Requesting a report on the activities of the Company from the General Director and reviewing the information provided by the internal and external audit;
- Making any decision regarding filing a claim against the members of the Supervisory Board, the General Director or other directors of the Company and participating in legal proceedings, including the appointment of a representative for such proceedings; and
- Making any other decisions that the general meeting must make according to the shareholders' agreement.

Voting at the general meeting is carried out in proportion to the shares in the authorized capital of the Company.

Supervisory Board

The Supervisory Board of the Company consists of 4 (four) members. CCEH Hydro III LLC is entitled to nominate at least 2 (two) members of the Supervisory Board as long as it owns the majority of shares in the Company and minority shareholders³⁵ are entitled to nominate 1 (one) member of the Supervisory Board.

The members of the Supervisory Board are elected by the shareholders at the general meeting for a term of 1 (one) year, regardless of their race, ethnic origin, age, gender, marital status and sexual orientation. Members of the Supervisory Board are required to act in accordance with the best interests of the Company's business while performing their duties.

The Supervisory Board makes decisions by a simple majority of the votes present regarding the following issues:

- Invitation to the general meeting of shareholders;
- Appointing or dismissing the General Director, as well as determining their remuneration or other conditions;
- Controlling the activities of the General Director, reviewing the General Director's annual reports and the General Director's proposal on the distribution of the Company's profits;
- Approval of the annual business plan and budget of the Company;
- Extension or guarantee of any loan/debt or financial obligation by the Company to any third party;
- Sell, transfer, pledge or otherwise encumber any asset or property of the Company;
- Taking on any obligations (except for ordinary business activities by the Company, the total value of which in any case should not exceed the amount approved by the budget, in a separate transaction or in a combination of transactions of USD 100,000);
- Making any capital expenditure or approving any other transaction that in each case exceeds the total amount approved by the budget, by a single transaction or a combination of transactions of USD 50,000;
- Acceptance and approval of the Company's ESG (Environmental, Social and Governance) action plan;

³⁵ Energy Solutions LLC and Geo Hydro Capital Group LLC are considered as minority shareholders.

- Making any other decisions that the Supervisory Board must make according to the shareholders' agreement;
- Appointment and dismissal of auditors of the Company;
- Pledge of the share of any shareholder of the Company or other legal encumbrance.

Table 5: Members of the Supervisory Board

Name and Surname	Position	Appointment Date	Term of Expiration
Gigla Sikharulidze	Chairman/Member	2025	-
Irakli Abaishvili	Member	2023	-
Taras Nizharadze	Member	2015	-

Gigla Sikharulidze is the chairman of the supervisory board of the Company. Mr. Sikharulidze joined Caucasus Clean Energy Holding ("CCEH") in 2014. Mr. Sikharulidze is responsible for assessing the investment potential of various hydropower projects in Georgia. As the Hydropower Engineer with Deloitte Consulting, Georgia, Hydropower Investment Promotion Project from 2011 to 2013, Mr. Sikharulidze was responsible for developing pre-feasibility studies for various HPP projects covering 4 watershed areas in Georgia. Mr. Sikharulidze graduated from Technical University, Tbilisi, Georgia, and received a Bachelor and Master's degrees in Hydropower Engineering.

Irakli Abaishvili is a member of the Supervisory Board of the Company. In 2016, he joined the Caucasus Renewable Energy Fund as a financial analyst, where he was responsible for the analysis of potential investment projects, development of companies' business plans, determination of the optimal capital structure and other operations. Currently, Mr. Irakli holds the position of operational manager at the Caucasus Renewable Energy Fund.

In 2012-2016, Mr. Irakli was responsible for the credit and financial analysis of various companies while working as a chief business analyst and then as a credit risk manager at JSC VTB Bank of Georgia. Until 2012, he worked at Procredit Bank in the direction of lending to small entrepreneurs. Mr. Irakli Abaishvili graduated from the Ivane Javakhishvili State University of Georgia and received a bachelor's degree in business administration. He also received a Master of Business Administration degree from Tbilisi Free University.

Companies in which Mr. Abaishvili is/was represented in the last 5 years³⁶: AIS LLC (S/N: 400251543), C-C-E-H Hydro VI LLC (S/N: 404591394), Bakhvi 2 LLC (S/ N: 405121595).

Taras Nizharadze has been a member of the Supervisory Board of the Company since 2015 and is one of the shareholders of Geo Hydro Capital Group LLC.

Mr. Nizharadze is also a shareholder of JSC Microfinance Organization Micro Business Capital and chairman of the supervisory board since 2012. Taras Nizharadze has been actively working in various business fields since 1990, including: banking, tourism, agriculture, natural resources and energy. In 1998 - 2012, Taras Nizharadze was one of the shareholders of JSC BasisBank, a member of the supervisory board of the same bank and later the chairman. Since 2006, he is the co-founder and director of Energo-Aragvi LLC, he is at the head of one of the successful projects implemented in the field of hydropower in Georgia. In 1986, Taras Nizharadze graduated from the Faculty of Physics of Moscow State University and received bachelor's and master's degrees in semiconductor physics. Mr. Taras started his scientific career as a scientist-researcher at the Republican Center for Structural Studies based at the Polytechnic Institute of Georgia.

Companies in which Mr. Nizharadze is/was represented in the last five years³⁷: GTIC LLC (ID: 202059262), AN-Jadvari LLC (ID: 222939195), CTS LLC (ID: 202195061), Energo-Aragvi LLC (ID: 204515177), Youth Travel Bureau LLC (ID: 204445225), Gudauri Management Group LLC (ID: 229324460), Energo-Aragvi LLC (ID:

³⁶ Names of all companies (except subsidiaries of the Company) of which the mentioned person was or is a member of the management, board of directors or supervisory board during the last 5 years.

³⁷ Names of all companies (except subsidiaries of the Company) of which the mentioned person was or is a member of the management, board of directors or supervisory board during the last 5 years.

229282594), Diari LLC (ID: 211340208), Kvadro-G LLC (ID: 211340342), Energo Aragvi Engineering LLC (ID: 406221672), Georgian Development Foundation (GDF) (ID: 404966480), Helit LLC (ID: 206156791), Vatiri LLC (ID: 400034743), Caucasus Airlines LLC (ID: 206109085), Neocom LLC (ID: 204931903), JS LLC (ID: 222937231), Jadvari-ABS LLC (ID: 222937259), Galean LLC (ID: 205090453), Shkhara (ID: 204447296), Geoseed LLC (ID: 205037057), Our Garden LLC (ID: 400076341), Garnet LLC (ID: 400113701), Geo Hydro Capital Group LLC (ID: 400092555), ADGI LLC (ID: 406161521), Rebeta LLC (ID: 400034725), Dzala LLC (ID: 404521282), Dzala Works LLC (ID: 404590402), Dzala Research LLC (ID: 406370403), C-C-E-H Hydro VI LLC (ID: 404591394), Bakhvi 2 LLC (ID: 405121595), DGI LLC (ID: 204544225), Renewable Energy Development Association of Georgia (ID: 402072706), Nikora Trade LLC (ID: 206255808), JSC Microfinance Organization Micro Business Capital (ID: 404967078).

General Director

The day-to-day activities of the Company are managed by the General Director. The General Director is subject to the decisions of the General Meeting and the Supervisory Board and must ensure their implementation. Also, the General Director is given full authority of representation and management to act on behalf of the Company.

The authority of the General Director may be terminated at any time by the decision of the Supervisory Board.

Rights and obligations of the General Director of the Company include the following:

- Signing contracts on behalf of the Company;
- Opening and closing bank accounts;
- Approval of orders, instructions and other by-laws which are mandatory for employees of the Company;
- Making decisions about the hiring of Company employees and their remuneration;
- Appointment and dismissal of technical or other director(s) of the Company; and
- Representation of the Company before any third party.

Executive Management Team

Giorgi Abramishvili is the general director of the Company. Mr. Abramishvili was appointed in 2014, and his contract has an indefinite term.

Giorgi Abramishvili has 25 years of experience in various industries, including leading managerial positions. At various stages of his career, Mr. Giorgi led large-scale energy projects (450 MW Namakhvani HPP, 230 MW Gardabani thermal power station, 16 MW Lakhani HPP, 250 kW hydroelectric power station). It should be noted that all projects were supported and financed by international investors and financial institutions and, therefore, were implemented according to the best international practices. In addition, Giorgi Abramishvili held leading positions in various energy organizations, including the Energy Development Fund of Georgia and he still is the head of the Georgian Renewable Energy Development Association (GREDA).

Before working in the energy sector, Mr. Giorgi was actively involved in real estate development, agriculture, education and publishing (Dutch House, German International Cooperation Corporation - G.I.Z, Siesta publishing house). Giorgi Abramishvili graduated from the University of Saarland and also studied global energy management at the University of Colorado.

Companies in which Mr. Giorgi is/was represented during the last 5 years³⁸: Energy Solutions LLC (ID: 405043616), Energy Solutions-Natanebi LLC (ID: 405059626), NS LLC (ID: 405132878), Okril LLC (ID: 405163610), Tskvandiri LLC (ID: 405163709), Hot Dog 1 LLC (ID: 405088382), Trading Solutions LLC (ID: 405349591), Lara LLC (ID: 402189190), C-C-E-H Hydro VI LLC (ID: 404591394), Dutch House – Orbeti LLC (ID: 405534104), Dutch House – Orbeti LLC (ID: 405532259), Bakhvi 2 LLC (ID: 405121595), Ina LLC (ID:

³⁸ Names of all companies (except subsidiaries of the Company) of which the mentioned person was or is a member of the management, board of directors or supervisory board during the last 5 years.

205016301), SGI LLC (ID: 205217549), CM Technology LLC (ID: 405214227), Giorgi Abramishvili - Ska (ID: 105107223).

Archil Dzeladze is the technical director of the Company. Mr. Dzeladze was appointed in 2014, and his contract has an indefinite term.

Archil Dzeladze has a lot of experience in the energy sector, specifically: in the direction of technical project design, study, expertise and operation of facilities. At different stages of his career, Mr. Archil held leading positions in the fields of hydro, thermal and solar energy, where he cooperated with international and local companies such as: EDF, Stucky, Colenko, Electrowat, UkrHydro, Tesla (Georgia), Engurhesi.

Archil Dzeladze led the design and construction works of hydroelectric power stations, power transmission lines, substations in Georgia, Eastern Europe and the CIS countries (Enguri HPP, Khudon HPP, Lakhani HPP Cascade, Aragvi HPP Cascade, Ukraine HPPs, Gardabani Thermal Station, 500/330/220 kv transmission lines in Georgia). Archil Dzeladze, as a member of the management team, cooperated in various projects with Posch & Partners Consulting Engineers, KfW, EBRD, World Bank, PA Government Services Inc./Winrock International and others. Currently, Archil operates the operating plants: (i) Lakhani 1 HPP and Lakhani 2 HPP and (ii) Aragvi 1 HPP and Aragvi 2 HPP.

Companies in which Mr. Archil is/was represented during the last 5 years³⁹: Tesla LLC (ID: 205274371), Geo Hydro Capital Group LLC (ID: 400092555), Energo-Aragvi LLC (ID: 204515177), Energo Aragvi Engineering LLC (ID: 406221672), Nano LLC (ID: 405243062), Trading Solution LLC (ID: 405349591), Okrili LLC (ID: 405163610), Tshkvandiri LLC (ID : 405163709), Apple LLC (ID: 405461726), Lara LLC (ID: 402189190), Taberne Mokhva LLC (ID: 402205341), Energy Solutions 2 LLC (ID: 405518462), Kari Kartli LLC (ID: 402255698), C-C-E-H Hydro VI LLC (ID: 404591394), Bakhvi 2 LLC (ID: 405121595).

Audit Committee

In accordance with Article 91 of the Law on Securities, an audit committee is formed in the Supervisory Board of the accountable enterprise and consists of members of the Supervisory Board and at least 1 independent member (the requirements of which are additionally established by Article 57 of the Law on Entrepreneurs).

The Company follows this requirement as of the date of approval of the Prospectus. In particular, an audit committee has been created in the Supervisory Board of the Company. The committee consists of 2 members: Irakli Diasamidze (independent supervisory board member), Irakli Abaishvili.

The functions and duties of the audit committee, among others, include: 1) to provide the Supervisory Board with information on the results of the conducted audit, the impact of the audit on the accuracy of financial statements and the participation of the audit committee in this process; 2) to regularly submit a report on the activities to the Supervisory Board and immediately notify about the objections arising in the performance of its functions; 3) control the accuracy of the financial statements of the Company, ensure the effectiveness of the internal control system and the independence of the internal audit (if such an audit exists), manage the relationship with the external auditor; including to supervise: a) the process of drawing up financial statements; b) effectiveness of quality control, risk management and, if necessary, internal audit of financial information; c) audit of financial statements, taking into account the conclusions reflected in the quality control monitoring report; d) compliance by the auditor/auditing firm with the requirements of the Law of Georgia On Accounting, Reporting and Audit (including norms on independence).

Conflict of interest

There is no conflict of interest between the personal interests and/or other duties of the members of the Supervisory Board and/or executive management of the Company. Also, there are no family ties between the members of the Company's Supervisory Board and/or the members of the executive management.

³⁹ Names of all companies (except subsidiaries of the Company) of which the mentioned person was or is a member of the management, board of directors or supervisory board during the last 5 years.

Legal proceedings

As of the date of this Prospectus, none of the members of the Supervisory Board and executive management of the Company for at least five years:

- has been convicted of fraud, economic crime or money laundering;
- has performed an executive function, as a member of management or supervisory bodies, in any company during bankruptcy or liquidation (except for voluntary liquidation); or
- has been subject to any formal indictment and/or sanction by any government or regulatory body (including any professional body) and has never been disqualified by a court from serving as a member of the management or supervisory body of any company.

Corporate governance

On December 7, 2021, the President of the National Bank of Georgia approved the Corporate Governance Code for Company of public securities, which came into force on January 1, 2022, although the Company will be required to submit the reports stipulated by the code for the first time by the date of the 2023 annual report submission. Said code is based on the approach: "comply or explain and present an alternative", which aims to promote the widespread use of the best practices of corporate governance

Dividend policy

The Company has no declared and written dividend policy. Processes related to the payment of dividends and certain restrictions are provided in the Charter of the Company.

Shareholders

Figure 4: Shareholders of the Company as of the date of preparation of the prospectus

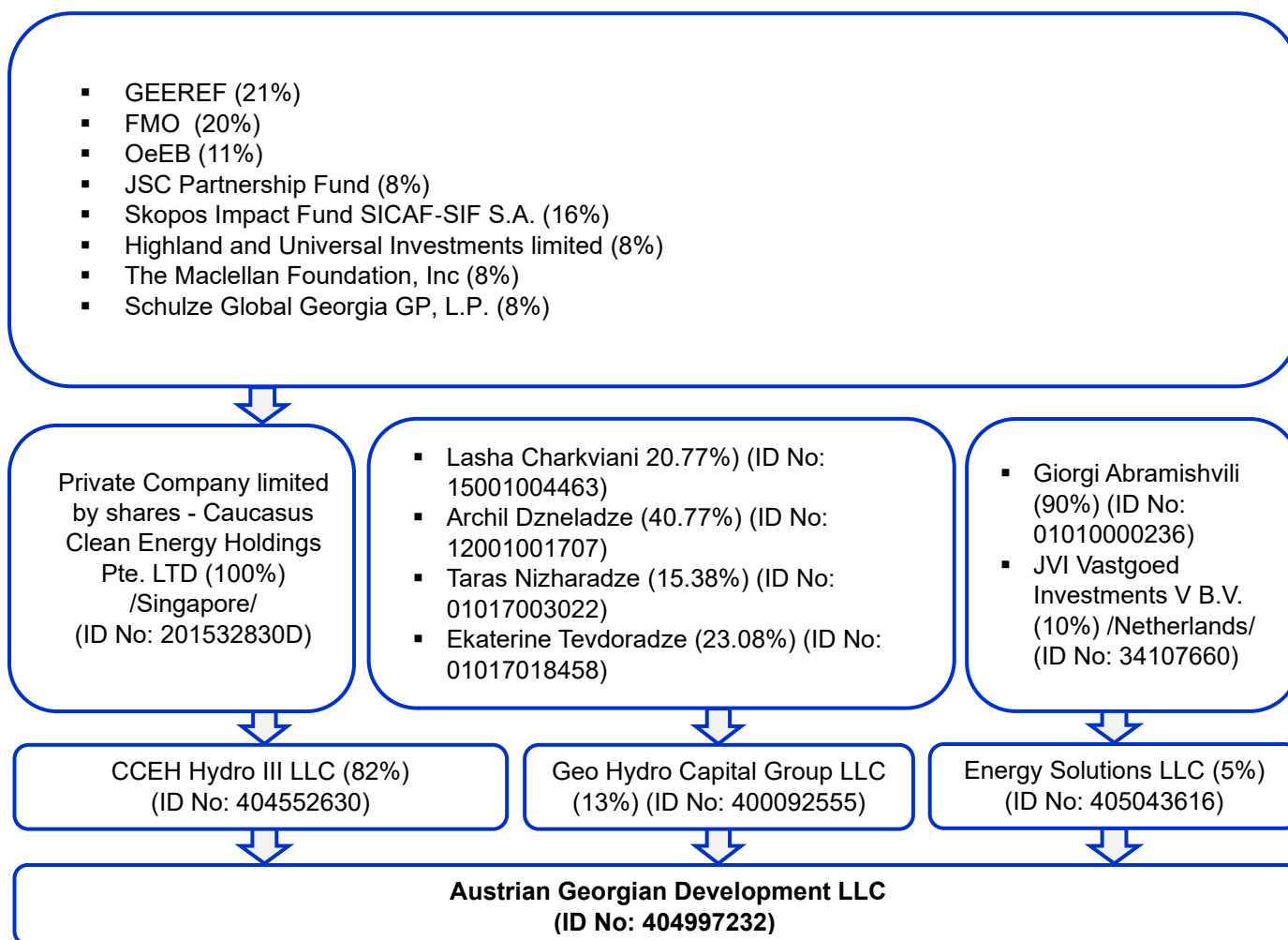


Table 6: Shareholders of the Company

Shareholder:	Share (%)
CCEH Hydro III LLC (Georgia, ID: 404552630)	82%
Geo Hydro Capital Group LLC (Georgia, ID: 400092555)	13%
Energy Solutions LLC (Georgia, ID: 405043616)	5%
Total	100%

1.1. CCEH Hydro III LLC - 82% (ID: 404552630)

CCEH Hydro III LLC, hereinafter referred to as "CCEH", is a private company limited by shares and a subsidiary of Caucasus Clean Energy Holdings Pte. Ltd. Caucasus Clean Energy, in turn, is registered in Singapore (ID: 201532830D) and is the owner of projects funded by the Caucasus Renewable Energy Fund, hereinafter referred to as "CCEF". CCEF is a partnership owned by various international financial institutions (IFIs/DFIs) and family offices (private family investment and asset management offices).

Table 7: information about the investors of CCEH Hydro III LLC

Investor		Ownership in CCEH (%)	Ownership in Company (%)	Registration Country:
Global Energy Efficiency and Renewable Energy Fund (GEEREF)	Investor <i>Limited partner</i>	21%	17%	Luxemburg
Dutch Entrepreneurial Development Bank (FMO) Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.	Investor <i>Limited partner</i>	20%	16%	Netherlands
Austrian Development Bank (OeEB) Oesterreichische Entwicklungsbank AG	Investor <i>Limited partner</i>	11%	9%	Austria
Skopos Impact Fund SICAF-SIF S.A. (Skopos)	Investor <i>Limited partner</i>	16%	13%	Luxemburg
JSC Partnership Fund	Investor <i>Limited partner</i>	8%	7%	Georgia
Highland and Universal Investments Limited (Highland)	Investor <i>Limited partner</i>	8%	7%	United Kingdom
The Maclellan Foundation, Inc.	Investor <i>Limited partner</i>	8%	7%	United States of America
Schulze Global Georgia GP, L.P.	Investor <i>General partner</i>	8%	7%	Guernsey

- **GEEREF** - GEEREF is a fund of funds advised by the European Investment Bank Group. It invests in private equity funds that finance renewable energy and energy efficiency projects in emerging markets.
- **FMO** – Dutch Entrepreneurial Development Bank, founded in 1970, is a public-private partnership, 51% owned by the Dutch government and 49% owned by commercial banks, trade unions, and various private sector representatives.
- **OeEB** - The official development bank of the Republic of Austria, mandated by the federal government to finance and support sustainable development projects in developing countries and emerging markets that are economically sustainable and have a positive impact on development.
- **JSC Partnership Fund** - This fund is established through the consolidation of ownership in Georgia's largest state-owned enterprises. Its activities encompass asset management and investment, including co-financing projects at the initial development stage.
- **Skopos** - An investment group under the Dutch family office.
- **Highland** - A family office in the United Kingdom.
- **The Maclellan Foundation, Inc.** – non-commercial fund established in United States of America.
- **Schulze Global Georgia GP, L.P.** - The fund's general partner, a Guernsey-registered partnership structure managed by CCEF investment professionals.

The general partner, Schulze Global Georgia GP, L.P., has the authority to make all decisions on behalf of the limited partnership. However, for strategic (and/or special) decisions, the consent of the following investors is required. This includes GEEREF, FMO, OeEB, Skopos, and JSC Partnership Fund.

It should be noted that in the ownership structure of CCEH only one ultimate beneficiary owner (UBO) holds more than 5% - Ann Geron Gloag, with a 5.36% ownership stake

Geo Hydro Capital Group LLC - 13% (ID: 400092555)

Geo Hydro Capital Group LLC was established in 2013 to develop small and medium-sized hydropower projects in Georgia. The partners of the company are the following individuals:

- Lasha Charkviani (ID: 15001004463) - 20.77%;
- Archil Dzeladze (ID: 12001001707) - 40.77%;
- Taras Nizharadze (ID: 01017003022) - 15.38%;
- Ekaterine Tevdoradze (ID: 01017018458) - 23.08%.

1.2 Energy Solutions LLC - 5% (ID: 405043616)

Energy Solutions LLC was established in 2014 in Georgia for the purpose of developing small and medium-sized hydropower projects. 90% of the company's share is owned by Giorgi Abramishvili (ID: 01010000236), and 10% of the share is owned by JVI Vastgoed Investments V B.V. (Netherlands, ID: 34107660).